



STRONG PETROCHEMICAL HOLDINGS LIMITED

海峽石油化工控股有限公司*

(incorporated in the Cayman Islands with limited liability) Stock Code: 852

Annual Report 2017



* For identification purposes only

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Forward-looking statements (the "Statements") contained in this Annual Report (the "Report") relating to the forecast business plans, prospects, financial forecasting, and growth strategies of the Group. These Statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this Report. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These Statements may prove to be incorrect and may not be realised in future. Underlying these Statements is a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of the Statements in this Report should not be regarded as representations by the board of directors or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such Statements.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Jian Sheng (*Chairman*)
Mr. YAO Guoliang

Independent Non-executive Directors

Ms. CHEUNG Siu Wan
Mr. GUO Yan Jun (resigned on 1 January 2018)
Ms. LIN Yan (resigned on 1 July 2017)
Dr. CHAN Yee Kwong (appointed on 1 July 2017)
Mr. DENG Heng (appointed on 1 January 2018)

BOARD COMMITTEES

Audit Committee

Ms. CHEUNG Siu Wan (*Chairman*)
Mr. GUO Yan Jun (resigned on 1 January 2018)
Ms. LIN Yan (resigned on 1 July 2017)
Dr. CHAN Yee Kwong (appointed on 1 July 2017)
Mr. DENG Heng (appointed on 1 January 2018)

Remuneration Committee

Ms. LIN Yan (*Chairman*) (resigned on 1 July 2017)
Dr. CHAN Yee Kwong (*Chairman*)
(appointed on 1 July 2017)
Mr. GUO Yan Jun (resigned on 1 January 2018)
Mr. DENG Heng (appointed on 1 January 2018)
Mr. WANG Jian Sheng

Nomination Committee

Mr. WANG Jian Sheng (*Chairman*)
Ms. CHEUNG Siu Wan
Mr. GUO Yan Jun (resigned on 1 January 2018)
Mr. DENG Heng (appointed on 1 January 2018)

COMPANY SECRETARY

Ms. WONG Wai Han (Practising Solicitor) (Hong Kong)
(resigned on 14 February 2018)
Mr. LAI Yang Chau, Eugene (Practising Solicitor)
(Hong Kong) (appointed on 14 February 2018)

AUTHORISED REPRESENTATIVES

Mr. WANG Jian Sheng
Mr. YAO Guoliang

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1604, 16th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
Credit Suisse AG
Rabobank International, Singapore Branch
Société Générale, Singapore Branch
Standard Chartered Bank (Hong Kong) Limited
United Overseas Bank Ltd., Singapore Branch

WEBSITE

www.strongpetrochem.com

SHARE INFORMATION

The Stock Exchange of Hong Kong Limited
Stock code: 00852

Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years/periods is set out below:

	2017	2016	2015	2014	2013 ⁺ (unaudited)	2013 [#]
Results (HK\$'000)						
Revenue	12,162,601	8,617,315	11,035,616	8,181,009	23,913,265	20,875,730
Profit (loss) before taxation from continuing operations	20,985	41,396	21,395	(360,667)	581,044	377,841
Taxation (charge) credit	(21)	1,476	(863)	(10,862)	(9,056)	(4,543)
Profit (loss) from continuing operations	20,964	42,872	20,532	(371,529)	571,988	373,298
Profit from discontinued operations	–	133,049	18,249	–	–	–
Profit (loss) for the year/period	20,964	175,921	38,781	(371,529)	571,988	373,298
Consolidated Statement of Financial Position (HK\$'000)						
Total assets	3,766,064	3,333,558	2,889,153	4,358,981	6,360,269	6,360,269
Total liabilities	(2,387,064)	(2,104,182)	(1,769,993)	(3,254,830)	(4,909,393)	(4,909,393)
Equity	1,379,000	1,229,376	1,119,160	1,104,151	1,450,876	1,450,876

[#] Period from 1 April to 31 December 2013

⁺ Period from 1 January to 31 December 2013

The financial information before 2015 was extracted from the Five Years Financial Summary in the annual reports of those years. No retrospective restatement of the discontinued operations of 2016 was made to such information.

Chairman's Statement

To all shareholders,

It is my pleasure to present the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "year").

In the corresponding year of 2016, the Group was principally engaged in, among others, the trading of oil products and manufacturing of petrochemicals. After the disposal of Hainan Huizhi Petrochemical Fine Chemical Co., Ltd., a previously indirect non-wholly owned subsidiary of the Company, in April 2016, the business of manufacturing of petrochemicals was discontinued and was considered as "discontinued operations" of the Group in the corresponding period of 2016. The Group continued to engage in the trading of energy products which is considered as "continuing operations".

The figures for the year stated herein refer to the results of continuing operations. To facilitate meaningful comparison, unless specified, the comparative figures in this report refer to the results of continuing operations for the year ended 31 December 2016.

Revenue for the year was approximately Hong Kong ("HK") Dollar ("HK\$") 12,162.6 million (2016: approximately HK\$8,617.3 million). Profit attributable to owners of the Company for the year was approximately HK\$21.2 million (2016: approximately HK\$172.2 million).

BUSINESS REVIEW AND PROSPECTS

Trading of Crude Oil, Petroleum Products, Petrochemicals and Coal

Oil price was generally stable in the first quarter of 2017 because the Organization of Petroleum Exporting Countries (the "OPEC") members and non-OPEC countries agreed to cut production in late 2016. However, oil price fell in late May 2017 because OPEC members decided to maintain production level at the existing level instead of cutting production. Brent crude oil price reached its lowest point during the year of United States Dollar ("US\$") 44.82 per barrel ("BBL") in June 2017, and started rising due to the strong demand in refined product. Since then, the gradually improved market sentiment maintained the increasing trend of Brent crude oil price which reached its highest point during the year of US\$67.02 per BBL in December 2017.

Except in May 2017, Caixin China General Manufacturing Purchasing Managers' Index (the "PMI") was generally in the positive territory for the whole year and this hinted that the economic growth of the People's Republic of China (the "PRC") became stable in 2017. By being benefited from the improving sentiment, the demand in oil products became strong again in the PRC.

The oil market shifted from contango to backwardation which means holding inventory will be risky to the Group since the spot prices will probably be higher than the future prices. In view of the changing market structure, our crude oil team turned to focus on back-to-back trade arrangement so as to minimise the inventory risk. Other than the back-to-back trade arrangement, the team also proactively developed the trading relationship with teapot refineries in the PRC during the year. In order to expand the revenue base, our petroleum team started its trading business of coal with the Indonesian coal supplier and the Chinese power plant during the year. Despite its focus on trading crude oil and coal in these two years, our petroleum team still kept an eye on the petroleum market and restarted its petroleum trading in the second half of the year. Our petrochemicals team continued to strengthen domestic trading network in the PRC and the team's effort has been well rewarded in view of the increase in trading volume in petrochemicals led by the restoration of the PRC customers' confidence based on the trend of the PMI.

Storage Business

Strong Petrochemical (Nantong) Logistics Company Ltd. ("Strong Nantong"), our wholly owned subsidiary, operates its storage facilities with 21 storage tanks and a capacity of 139,000 cubic meters. During the year, Strong Nantong focused on providing better services and maintaining relationship with long-term customers. This is the first year Strong Nantong generated profit and we believe that Strong Nantong can perform even better in the coming years.

Prospects

In July 2017, the Company allotted and issued 353,603,681 new ordinary shares at the subscription price of HK\$0.658 per subscription share to an independent third party which subsequently became a substantial shareholder of the Company. With the net proceeds from the issue of these new shares amounting to approximately HK\$232.6 million, the Group has more solid financial support to invest in new energy industry and when suitable investment opportunities arise in the future. Same as 2017, we may provide loans to independent third parties for interest income if we have cash surplus while we are waiting for opportunities in 2018. We believe this can increase the Group's profitability and maximise shareholders' wealth.

In September 2017, Green Concept Global Limited ("Green Concept"), an indirect wholly-owned subsidiary of the Company, has conditionally agreed to invest US\$90.0 million (equivalent to approximately HK\$702.0 million) in GSR Electric Vehicle, L.P. (the "Fund") which principally invests in electric vehicle battery business. Green Concept has acquired 49.3% equity interest in GSR GO Scale Capital Advisors, Ltd. (the "Acquisition") which holds the license with respect to the services know-how and the business intellectual property related to battery business under the licensing agreement entered into with Nissan Motor Co., Ltd., at a consideration of US\$10.0 million (equivalent to approximately HK\$78.0 million). We considered the Fund investment and the Acquisition as the first step for the Group to enter the new energy industry. We intend to set up a joint venture company with Jiangsu Dagang Co., Ltd. (江蘇大港股份有限公司) ("Jiangsu Dagang", stock code: 002077) whose shares are listed on the Shenzhen Stock Exchange and with Mr. Sonny Wu ("Mr. Wu"). The joint venture company will be principally investing in the production site of manufacturing lithium-ion batteries with the services know-how related to manufacture of lithium-ion batteries provided by Nissan Motor Co., Ltd.. The set up of joint venture company is still in discussion. Further announcement will be made as and when appropriate.

In 2017, our crude oil team started building up trading relationship with teapot refineries and successfully delivered the first shipment to the teapot refineries. Thanks to the solid relationship developed, more shipments have been made in the first quarter of 2018. The team will continue to focus on trading with teapot refineries in the PRC in consideration of the profitability of such trades, especially under the current oil market of backwardation. The PMI for February 2018 came in at 51.6 and this was the ninth successive month with expansion signal since Chinese factories continued to raise output to meet new orders. The good start of the PMI in 2018 makes us believe that the PRC's economy is still on an upward trend and focusing on developing trading relationship with teapot refineries will be beneficial to the Group.

Considering the limited opportunities in the petroleum products market in the first half of the year, our Singapore office has taken initiative to develop business relationship with the Indonesian coal supplier and the Chinese power plant in order to diversify the business risk and reduce its reliance on petroleum trading business. In view of the profitability of the coal trading business, we will continue to develop the coal trading business with a target of bringing profit to the Group.

Looking forward, we will continue to adopt cautious measures to further expand our trading and storage businesses, in terms of products and markets. Simultaneously, we will proactively look for investment opportunities and widen the revenue base of the Group, especially in the new energy industry, in order to optimise return for shareholders.

Chairman's Statement

APPRECIATION

On behalf of the board of directors of the Company ("Directors", collectively the "Board"), I would like to express my heartfelt gratitude to our colleagues for their dedicated hard work, and extend my deepest appreciation to our shareholders, business partners, and my fellow directors for their unwavering support and trust to the Group.

Wang Jian Sheng

Chairman

Hong Kong, 22 March 2018

BUSINESS REVIEW

Trading of Crude Oil, Petroleum Products, Petrochemicals and Coal

Same as last year, 2017 was again a volatile year for the oil price. Brent crude oil price swung in the first half of 2017, and was on a relatively stable upward trend in the second half of the year. Both the change of market structure and the economic growth of the PRC had a great impact on our strategies towards our crude oil, petroleum products and petrochemicals trading. In 2017, our Macao office focused on trading crude oil through back-to-back arrangement and started trading with teapot refineries in the PRC. The petroleum products team proactively developed the trading of coal to cope with the sluggish petroleum products market in the first half of 2017 while it responded quickly to the recovery of demand in petroleum products in the second half of the year. During the year, another petroleum products team was set up in Shandong Province, the PRC, to focus on trading of petroleum products in the PRC. Demand in petrochemicals rebounded in the second half of 2017, and trading volume of petrochemicals increased as a result.

Storage Business

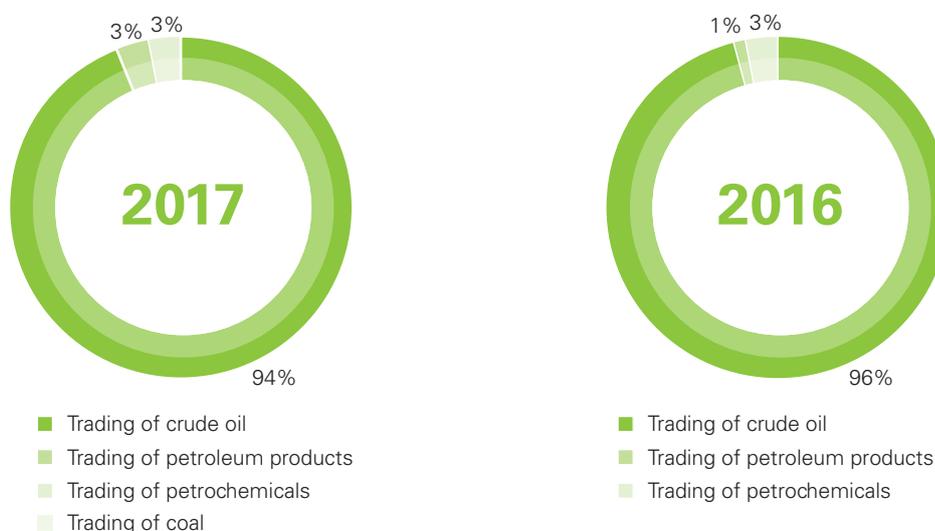
Strong Nantong, our wholly owned subsidiary, provides storage services with 21 storage tanks and a capacity of 139,000 cubic meters. Strong Nantong is principally engaged in providing storage services for gas oil and diesel fuel. Strong Nantong improved its vehicle discharge system during the year and more customers used vehicles to discharge the petroleum products. Although the total throughput decreased slightly from approximately 1,190,000 metric tons ("MT") in 2016 to approximately 1,180,000 MT in 2017, Strong Nantong recorded an increase in revenue because of the new charge on vehicle discharge. Due to the continuous effort of its personnel to provide quality service and increase the capacity of long-term lease storage tanks, the improved financial performance of Strong Nantong is demonstrated by its first time profit generated in 2017.

FINANCIAL REVIEW

Revenue and Fair Value Changes on Derivative Financial Instruments

The Group is principally engaged in the trading of energy products. Approximately 94% (2016: 96%) of the Group's revenue was generated from trading of crude oil for the year, while the revenue generated from trading of petroleum products was approximately 3% (2016: 1%) and the revenue generated from trading of petrochemicals was approximately 3% (2016: 3%). Revenue generated from coal trading which was commenced in the second half of 2017 was less than 1%.

Analysis of revenue in percentage to total revenue by business:



Management Discussion and Analysis

The revenue of the Group was approximately HK\$12,162.6 million (2016: approximately HK\$8,617.3 million) for the year. Despite the increasing oil price which led to a dramatic increase in revenue, the trading volume of crude oil decreased from 26,418,059 BBL in the last year to 25,963,313 BBL for the year since the demand in crude oil from an existing customer dropped. The gradual improvement of demand in petroleum products in the PRC led to an increase in the trading volume of petroleum products from 31,003 MT in the last year to 86,714 MT for the year. The PRC customers have restored their confidence in the PRC's economy which is consistent with the statistics of the PMI. This made the trading volume of petrochemicals increased from 50,259 MT in the last year to 67,235 MT for the year. The Group started its coal trading in the second half of the year and the trading volume of coal was 36,300 MT.

Product	Unit	Year ended 31 December			2016		
		Number of shipment	Sales quantity	Revenue HK\$'000	Number of shipment	Sales quantity	Revenue HK\$'000
Trading of major products							
Crude oil	BBL	42	25,963,313	11,384,202.5	37	26,418,059	8,311,350.4
Petroleum products	MT	12	86,714	401,786.1	13	31,003	103,686.8
Petrochemicals	MT	102	67,235	363,738.5	47	50,259	202,277.3
Coal	MT	1	36,300	12,874.3	–	–	–
Total		157		12,162,601.4	97		8,617,314.5

The Group has established trading teams as well as daily management oversight, which manages the overall physical cargo price exposure and controls this through offsetting oil derivative contracts according to the Group's risk management policy. As part of our rigorous control process, a daily reporting system is adopted for all physical and derivative contracts. Such risk control system enables effective and timely management of the Group's exposure to market risk.

During the year, the Group reported an aggregate loss on fair value changes on derivative financial instruments for hedging transactions of approximately HK\$45.0 million (2016: approximately HK\$209.9 million) and an aggregate loss on fair value changes on derivative financial instruments for proprietary trading transactions of approximately HK\$15.6 million (2016: aggregate gain of approximately HK\$7.3 million).

Gross Profit

The overall gross profit of the Group for the year dropped to approximately HK\$187.1 million (2016: HK\$349.0 million) though the revenue increased as a result of raising oil price. The drop in gross profit was primarily due to the decrease in profit margin led by the crude oil team's focus on back-to-back trade arrangement with lower profit margin and intense market competition in the petrochemicals market.

Profit attributable to Owners of the Company

Profit for the year attributable to owners of the Company was approximately HK\$21.2 million (2016: approximately HK\$172.2 million).

Management Discussion and Analysis

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows (the "Internal Funds") and banking facilities. As at 31 December 2017, the Group had deposits placed with brokers, pledged bank deposits, and bank balances and cash of approximately HK\$83.5 million (2016: approximately HK\$306.4 million), approximately HK\$44.6 million (2016: approximately HK\$67.5 million) and approximately HK\$715.1 million (2016: approximately HK\$230.3 million) respectively. The total of deposits placed with brokers, pledged bank deposits, and bank balances and cash (collectively, the "Liquidity Resources") were approximately HK\$843.2 million (2016: approximately HK\$604.2 million). Most of the Liquidity Resources were denominated in US\$.

The equity attributable to the owners of the Company increased by approximately HK\$149.9 million to approximately HK\$1,378.5 million as at 31 December 2017 (2016: approximately HK\$1,228.6 million).

As at 31 December 2017, the Group did not have any bank borrowings, represented by trust receipt, discounting, short-term loans and long-term loans repayable within 1 year (2016: approximately HK\$1,178.3 million). As at 31 December 2017, the Group's gearing ratio was 0% (2016: approximately 35%). The gearing ratio was calculated as the Group's total borrowing divided by total assets.

The Group will mainly use the Internal Funds to repay the due debts and relevant interests, in case of any shortfalls, the Group will consider to avail itself of new loans by unused banking facilities to finance the repayment of the principal and interest in a timely manner.

As at 31 December 2017, the Group has banking facilities of approximately US\$686.3 million and Renminbi ("RMB") 35.0 million (equivalent to approximately HK\$5,394.6 million in total) from several banks. Save as disclosed in notes 25 and 33 to the consolidated financial statements, the Group did not have any other charges on asset as at 31 December 2017.

The majority of the Group's sales and purchases are denominated in US\$. The Group considers its foreign currency exposure is mainly arising from the exposure of exchange between US\$ and HK\$ with limited exposure to Singapore Dollar, Euro and RMB. Since the exchange rate of US\$ against HK\$ is relatively stable during the year, the exposure on foreign exchange is insignificant.

Contingent Liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

Capital Commitments

Save as disclosed in note 28 to the consolidated financial statements, the Group did not have any other significant capital commitments as at 31 December 2017.

Management Discussion and Analysis

Material Acquisitions and Disposals, and Future Plans for Material Investments

The success of the Group will depend, inter alia, on the realisation of the expected synergies, cost control, and growth opportunities and potentials upon integration of the acquired businesses. The Group concentrates on its core business and cautiously expands the scale and geographical spread of its business through organic growth and investment in selective acquisitions with great potential. There can be no assurance that a failure to operate the acquired businesses successfully and thereby not achieving the expected financial benefits, may not adversely affect the Group's financial position and results.

Announced on 7 September 2017, an indirect wholly-owned subsidiary of the Company, Green Concept, entered into a subscription agreement (the "Subscription Agreement") with GSR Electric Vehicle Partners, L.P. (the "General Partner"), and a sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Wu and GSR Electric Vehicle SPV Limited (the "Guarantor"), on 7 September 2017 respectively. The General Partner, Mr. Wu and the Guarantor are independent third parties of the Group. Pursuant to the Subscription Agreement, Green Concept has conditionally agreed to make a capital commitment to the Fund of US\$90.0 million (equivalent to approximately HK\$702.0 million), representing 18% of the initial size of the Fund. The completion of the transaction will take place on 31 March 2018 which is subject to fulfillment or waiver of some conditions. Pursuant to the Sale and Purchase Agreement, Green Concept has conditionally agreed to buy the 36 voting shares, representing approximately 49.3% of the shareholding in the GSR GO Scale Capital Advisors, Ltd., which is principally engaged in the management and investment in funds, as well as holding the license with respect to the services know-how and the business intellectual property related to the battery business under the licensing agreement entered into with Nissan Motor Co., Ltd., at a consideration of US\$10.0 million (equivalent to approximately HK\$78.0 million). This transaction has been completed in September 2017.

The Group is negotiating with Jiangsu Dagong and Mr. Wu about setting up a joint venture company in the PRC principally investing in the production site of manufacturing lithium-ion batteries with the know-how related to manufacture of lithium-ion batteries provided by Nissan Motor Co., Ltd..

The Fund investment, the Acquisition and the set up of the joint venture company are in line with the Group's strategy of tapping into the new energy industry and they are able to widen the revenue base of the Group.

Pursuant to a memorandum of agreement, Srithai Capital Co., Ltd. ("Srithai"), the associate of the Company in which the Company holds 49% equity interest indirectly, agreed to dispose the oil tanker (the "Vessel") to an independent third party in January 2018 at a price of approximately US\$15.2 million (equivalent to approximately HK\$118.6 million) and delivered the Vessel to the independent third party in mid-February 2018.

Save as disclosed in notes 17, 18 and 38 to the consolidated financial statements, there were no other significant investments held during the year, or plans for material investments of capital assets as at the date of this report, nor were there other material acquisitions and disposals of subsidiaries during the year.

Employees

The number of employees of the Group was 81 (2016: 84) as at 31 December 2017. The Group's remuneration packages are maintained at competitive level and are determined on the basis of performance, qualification and experience of individual employee.

We recognise the importance of a good relationship with our employees by providing competitive remuneration packages which commensurate with the prevailing market practice to our employees, including provident fund, life and medical insurances, discretionary bonus, share options, and training for human resources upskilling.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. WANG Jian Sheng (“Mr. Wang”), aged 64, is an executive Director and the chairman of the Company (the “Chairman”) since February 2008. He has been a member of the remuneration committee of the Company (the “Remuneration Committee”) and the chairman of the nomination committee of the Company (the “Nomination Committee”) since November 2008 and March 2012 respectively. In October 2000, Mr. Wang invested in the Group and acted as a substantial shareholder. At the same time, he joined the Group as a supervisor. He graduated from Henan University of Science and Technology, previously known as Luoyang Industrial College, with a bachelor degree in metallic materials and heat process. He is responsible for overseeing the function of the Board, formulating major corporate and business strategies, and identifying business goals and the related business plan at the high level. He is an independent non-executive director of China Financial Services Holdings Limited (stock code: 605) whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “HKEx”). Mr. Wang owns the entire issued share capital of Sino Century Holdings Limited (“Sino Century”) which in turn holds 50% shareholding in Forever Winner International Ltd. (“Forever Winner”), a shareholder of the Company holding 1,041,746,000 shares of the Company. Furthermore, since Mr. Wang and Mr. Yao Guoliang (“Mr. Yao”) jointly control Forever Winner which in turn holds 1,041,746,000 shares of the Company, Mr. Wang and Mr. Yao are deemed as parties acting in concert. Therefore, as Mr. Yao currently beneficially owns approximately 5.84% equity interest in the Company, Mr. Wang shall be deemed to hold the same equity interest in the Company.

Mr. YAO Guoliang, aged 52, is an executive Director and the chief executive officer of the Company (the “CEO”) since February 2008. In November 1999, Mr. Yao founded the Group, and has been a director and a trader of the Group since then. He graduated from University of International Business and Economics with a bachelor degree in economics. He has more than 20 years of experience in handling crude oil trading and associated hedging activities. Leveraging on his extensive experience in the oil industry, Mr. Yao is responsible for formulating our corporate and business strategies, business development and management, trade solicitation as well as hedging implementation. In addition to be the direct and beneficial owner of 124,222,000 shares of the Company, Mr. Yao also owns the entire issued share capital of Jin Yao Holdings Ltd. (“Jin Yao”) which in turn holds 50% shareholding in Forever Winner, a shareholder of the Company holding 1,041,746,000 shares of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHEUNG Siu Wan (“Ms. Cheung”), aged 51, is an independent non-executive director of the Company (an “INED”) since 1 January 2012. Ms. Cheung has been the chairman of the audit committee of the Company (the “Audit Committee”) and a member of the Nomination Committee since 1 January 2012 and 16 March 2012 respectively. Ms. Cheung graduated from City University of Hong Kong with a Bachelor of Arts in Business in 1988, Hong Kong University of Science and Technology with a Master of Science in Accounting in 1995 and Lingnan University of Hong Kong with a Master of Arts in Practical Philosophy in 2017. Ms. Cheung has extensive experience in China tax services. Ms. Cheung joined KPMG Hong Kong in 1996, and from 2004 to 2011, she was a partner of KPMG China. Ms. Cheung served as a member of Steering Team of Association of Chartered Certified Accountants (“ACCA”) Southern China from May 2008 to March 2017, of which from May 2009 to April 2011, as the chairman of Steering Team of ACCA Southern China. Ms. Cheung was also a member of Steering Team of ACCA Shanghai from March 2010 to March 2013 and a member of the China Expert Forum of ACCA China since 2016. From April 2009 to March 2013, Ms. Cheung acted as a member of the Accountancy Training Board of Vocational Training Council and became a member of the Working Group of Seminars of the Accountancy Training Board from April 2013 onwards. Ms. Cheung is a member of the Customer Liaison Group for SMEs of the Trade and Industry Department since 2017. Ms. Cheung is a part-time teacher of University of Macau and also HKU School of Professional and Continuing Education. Ms. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and the ACCA.

Biographical Details of Directors and Senior Management

Dr. CHAN Yee Kwong (“Dr. Chan”), aged 55, is an INED since 1 July 2017. Dr. Chan has been the chairman of the Remuneration Committee and a member of the Audit Committee since 1 July 2017. Dr. Chan holds BBA, MBA and PhD in business from the Chinese University of Hong Kong. He further holds LLB and LLM degrees in Law from the University of London. Dr. Chan acquired his Barrister qualification from the Honourable Society of the Middle Temple. Dr. Chan currently serves as an associate head and an associate professor of the Department of Management and Marketing at the Hong Kong Polytechnic University. He has been appointed as a subject specialist (Marketing) by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications since 2008. He is currently serving as an external examiner/academic assessor for the Hong Kong Vocational Training Council (Technological and Higher Education Institute of Hong Kong) and HKU School of Professional and Continuing Education. In addition to academic research, Dr. Chan was engaged in consultancy projects for such organisations as the Hongkong Electric Company, Limited, Sa Sa International Holdings Limited and the Direct Selling Association of Hong Kong Limited.

Mr. DENG Heng (“Mr. Deng”), aged 48, is an INED since 1 January 2018. Mr. Deng has been a member of the Audit Committee, the Remuneration Committee and the Nomination Committee since 1 January 2018. Mr. Deng graduated from China Agricultural University with a Bachelor of Science in 1992 and Beijing Jiaotong University with a Master of Business Administration. He currently serves as the Overseas Committee Member of All-China Federation of Returned Overseas Chinese and the Secretary General of Cross-Strait China Culture Communication Foundation. Mr. Deng has extensive experience in corporate management and social activities. He had worked at COFCO Corporation (“COFCO”) from 1996 to 2008, including serving as the Managing Director of a member company within COFCO in London for more than 7 years.

SENIOR MANAGEMENT

Mr. ZHUANG Jia (“Mr. Zhuang”), aged 52, is the deputy general manager of the Group. He is responsible for the trading, shipping and business development of the Group and overseeing the petrochemicals trading business. He is also a trader of the Group. His duties include negotiating with suppliers and customers on terms and pricing of trades, considering and executing hedging strategies, and monitoring open positions of derivative financial instruments of the Group. Mr. Zhuang obtained his bachelor of engineering degree from East China University of Science and Technology, previously known as East China Institute of Chemical Technology, in the PRC, majoring in petroleum processing in 1988. He has more than 20 years of experience in the oil industry. After university graduation, he joined Sinochem Shanghai as a salesman in the petroleum department and was involved in the hedging activities from April 1993 to February 1994. During the period from March 1994 to January 1997, he was seconded to SCHECO (Hong Kong) Co., Limited, an overseas branch of Sinochem Shanghai, as trading manager and later promoted to deputy general manager. After the secondment, he returned to Sinochem Shanghai and accepted the position as a manager in the import department until March 1998. Prior to joining the Group in March 2007, he had been the trading manager for ICC Chemical Corporation (Shanghai Office) for more than 8 years and was responsible for trading petrochemicals.

Mr. Francis TAN Boon Chye (“Mr. Tan”), aged 64, is the general manager and a director of Strong Petroleum Singapore Private Ltd. (“Strong Singapore”). Mr. Tan is a member of the Institute of Petroleum (London) since 1984. Mr. Tan has over 30 years of experience in the oil industry from cargo and blending operations, shipping and chartering, oil broking (middle distillates) to oil trading. Mr. Tan is responsible for the overall oil operations of Strong Singapore since he joined the Group in 2009.

Mr. WANG Si Jue, aged 56, is the general manager of Nantong Strong International Trading Company Limited. He obtained an executive master of business administration degree from University of Houston, the United States of America, in 2007, a bachelor degree in science majoring in petroleum refining in 1984 and a master degree of chemical engineering in 2001 both from East China University of Science and Technology, previously known as East China Institute of Chemical Technology, in the PRC. He joined the Group in 2011 and has over 30 years of experience in oil refinery and extensive experience in operations and management in large enterprises.

The Board has pleasure to present the Corporate Governance Report of the Company for the year ended 31 December 2017. The Company is committed to strict adherence to the high corporate governance standards. The Board believes it is fundamental and essential to fulfill public and corporate responsibilities, develop the Group sustainably, enhance shareholders' value and safeguard interests of stakeholders.

The Company has adopted and is fully compliant with all the provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2017, with the exception of the following deviation:

Pursuant to Code Provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend the general meetings and develop a balanced understanding of the views of shareholders. Ms. Lin Yan, the INED who has tendered her resignation with effect from 1 July 2017, was unable to attend the annual general meeting of the Company (the "AGM") held on 28 June 2017 due to other prior business engagement.

THE BOARD

Responsibilities

The Board is responsible for the overall management, which assumes the responsibility for leadership and control of the Company, and the Directors are collectively responsible for promoting the success of the Company by directing and supervising its affairs, overseeing the achievement of strategic plans, and monitoring its long term performance to enhance shareholders' value. The management of the Company (the "Management") is delegated with authority and responsibility for the day-to-day operations of the Group under the leadership of the Board.

The role of the Chairman, Mr. Wang Jian Sheng, is separated from that of the CEO, Mr. Yao Guoliang. Their respective responsibilities are clearly defined and segregated to reinforce their independence and accountability.

The Chairman is responsible for providing leadership and governance to the Board and ensuring that the Board and its committees function effectively. He approves strategies and policies of the Group and supervises the Management on their implementation to ensure value creation and maximisation for shareholders. He takes part in cultivating and maintaining good relationships with strategic associates and creating a favorable environment for the development of the Group's businesses.

The CEO is responsible for leading the day-to-day operations of the Group's businesses to achieve its business and financial targets. Acting as the principal manager, he develops operating plans and strategies to the Board and ensures the effective implementation of the strategies and policies adopted and prioritised by the Board supported with effective and competent Management built and maintained by him. He maintained ongoing dialogue with the Chairman and all Directors to keep them timely and appropriately informed of all major changes and business development.

Directors have full and timely access to information of the Group as the Chairman ensures that the Management will supply the Board and its committees with all relevant information in a timely manner, as well as the advices and services of the company secretary of the Company (the "Company Secretary"), with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors may make further enquiries if in their opinion it is necessary or appropriate to request for further information. They also have unrestricted access to the advices and services of the Company Secretary, who is held responsible for providing Directors with Board papers and related materials and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. When needed and upon making reasonable request to the Board, the INEDs may seek independent professional advice at the Company's expense in assisting them to carry out their duties. Insurance cover has been appropriately arranged to the Directors in connection with the performance of their responsibilities.

Corporate Governance Report

The presence of three INEDs is considered by the Board to be a reasonable balance between executive and non-executive Directors. The Board is of the opinion that such balance can provide adequate checks and balances for safeguarding the interests of shareholders and of the Group.

All INEDs are engaged with a fixed term of one year service with the Company and may be terminated by either party giving not less than one month's prior written notice. Shareholders may propose a candidate for election as Director in accordance with the Company's articles of association. All Directors appointed to fill a vacancy are subject to re-election at the first general meeting of shareholders after appointment in accordance with Article 86(3) of the Company's articles of association. In accordance with Article 87 of the Company's articles of association, every Director shall be subject to retirement by rotation at least once every three years.

The Company has received written annual confirmations from all INEDs as to their independence as required under the Listing Rules. All INEDs are absent from involvement in daily management of the Company or any relationships or circumstances which would interfere their independence.

The INEDs bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all INEDs make various contributions to the effective direction of the Company.

Board Diversity Policy

In order to achieve a diversity of perspectives among members of the Board, the Company has adopted the board diversity policy (the "Board Diversity Policy") throughout the year and has made it available on the website of the Company for better transparency and governance. It is the policy of the Company to consider a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, when determining the composition of the Board.

The Company will also take into account factors based on its own business model and specific needs from time to time. The appointments of all members of the Board will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Delegation by the Board

The day-to-day management, administration and operation of the Company are delegated to the CEO and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board has the full support of the CEO and the senior management to discharge its responsibilities.

All committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, have specific terms of reference clearly defining the authorities and responsibilities of the respective committees. All committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board reviews, on an annual basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Company as a whole.

BOARD COMPOSITION, BOARD AND COMMITTEE MEETINGS

As at 31 December 2017, the Board comprises two executive Directors and three INEDs. Their biographical details are set out in the section of this annual report headed "Biographical Details of Directors and Senior Management" and are posted on the Company's website. The Company has met the requirements of the Listing Rules relating to the appointment of at least three INEDs with at least one of whom is with appropriate professional qualifications or accounting or related financial management expertise throughout the year. All Directors give sufficient time and attention to the affairs of the Group.

The Board meets at least four times each year and more frequently as the needs of the business demand. The Company's memorandum and articles of association provide for participation at meetings via telephone and other electronic means. Apart from the Board meetings, the Board would from time to time devote separate sessions to consider and review the Group's strategy and business activities. The attendance of the Directors at the Board meetings during the year is set out in the table under the section of "Meetings Held and Attendance" below.

Practices and Conduct of Meetings

The annual meeting schedule and the agenda of each meeting are made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meetings, so that Directors are given an opportunity to include matters in the agenda for discussion. For other Board and committee meetings, reasonable notice is given.

The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations in connection with the meetings are observed and complied with. Papers for Board meetings or committee meetings together with all relevant information are sent to all Directors or committee members at least 3 days before each meeting to enable them to make informed decisions with adequate data. The Board and each Director also have direct and independent access to the Management whenever necessary.

According to the current Board practice, any material transaction involving a conflict of interest with a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association also contains provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. Specific responsibilities of each committee are described below. All committees have defined terms of reference which are of no less exacting terms than those set out in the CG Code.

Audit Committee

The Audit Committee comprises three INEDs who possess relevant business and financial management experience. The Company Secretary acts as the secretary to the Audit Committee. None of the members is employed by or otherwise affiliated with the former or existing auditor of the Company. The Audit Committee is chaired by Ms. Cheung Siu Wan, one of the INEDs having professional qualifications, and accounting and financial management skills to understand financial statements and contribute to the corporate governance of the Company under the Listing Rules.

The Audit Committee has undertaken a review of all the non-audit services provided by Messrs. Deloitte Touche Tohmatsu during the financial year ended 31 December 2017, and is satisfied that such services would not affect the independence of Messrs. Deloitte Touche Tohmatsu as the Company's external auditor. The Audit Committee has recommended to the Board that Messrs. Deloitte Touche Tohmatsu be nominated for reappointment as external auditor of the Company at the forthcoming AGM.

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The terms of reference of the Audit Committee are posted on the Company's website and include the following:

Relationships with the Company's auditor

- (i) To act as the key representative body for overseeing the Company's relation with the external auditor, and to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to consider any questions of their resignation or dismissal.
- (ii) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standard, and to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.
- (iii) To develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

Review of the Company's financial information

- (iv) To monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Main Board Listing Rules and legal requirements in relation to financial reporting.
- (v) Regarding to (iv) above:
 - (a) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditor; and
 - (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor.

Oversight of the Company's financial reporting system, risk management and internal control systems

- (vi) To review the Company's financial controls, and unless expressly addressed by a separate risk committee, or by the board itself, to review the Company's risk management and internal control systems.
- (vii) To identify the risk of the Group and decide on risk levels and risk appetite.
- (viii) To approve major decisions affecting the Group's risk profile or exposure and give such guidelines as it considers appropriate.
- (ix) To consider the effectiveness of decision making processes in crisis and emergency situations.
- (x) To discuss the risk management and internal control system with the Management to ensure that the Management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.
- (xi) To consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the Management's response to these findings.
- (xii) Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.
- (xiii) To review the Group's financial and accounting policies and practices.
- (xiv) To review the external auditor's management letter, any material queries raised by the auditor to the Management about accounting records, financial accounts or systems of control and the Management's response.
- (xv) To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- (xvi) To report to the Board on the matters set out herein.
- (xvii) To consider other topics, as defined by the Board.
- (xviii) To review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the year ended 31 December 2017, the Audit Committee held two meetings and reviewed the preliminary, interim and annual results, and internal controls of the Group, and performed the duties and responsibilities under the terms of reference and as set out in the CG Code.

The Audit Committee reviews the Group's risk management policies annually. A high level review of internal controls of the Group was performed at the end of the year. The Audit Committee will continue to examine the Group's systems and policies for assessing and taking action to contain the different types of risks in its various operations as part of the Audit Committee's ongoing review of the adequacy of the Group's internal controls.

Corporate Governance Report

The Audit Committee has full access to and has co-operated with the Management and it has been given the resources required for it to discharge its functions properly. It has full discretion to invite any Director and executive officer to attend its meetings. The Audit Committee has also met with the external auditor, without the presence of the Management during the year.

In addition, the Audit Committee keeps under constant review changes to the Hong Kong Financial Reporting Standards with the assistance of the external auditor to assess their application to the accounting policies adopted by the Group and, where applicable, their effective adoption by the Group.

All the recommendations of the Audit Committee to the Management and the Board were accepted and implemented.

Subsequent to the financial year end, the Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group, and recommended them to the Board for approval.

Remuneration Committee

The Remuneration Committee comprises three members whereas the majority of the members must be INEDs. Currently, the Remuneration Committee is chaired by Dr. Chan Yee Kwong, an INED. The Company Secretary acts as the secretary to the Remuneration Committee.

The Remuneration Committee is responsible for recommending to the Board a framework for the remuneration of Directors and key executives. The review covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses and other benefits. The Remuneration Committee also oversees the administration of the Company's share option schemes. The Remuneration Committee's recommendations are made in consultation with the CEO and submitted for endorsement by the Board. No Director is involved in any decision making, in respect of any remuneration or compensation to be offered or granted to him/her.

The terms of reference of the Remuneration Committee are posted on the Company's website and include the following:

- (i) To make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.
- (ii) To review and approve the Management's remuneration proposals with reference to the Board's corporate goals and objectives.
- (iii) Either:
 - (a) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or
 - (b) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

- (iv) To make recommendations to the Board on the remuneration of non-executive Directors.
- (v) To consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group.

- (vi) To review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive.
- (vii) To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and that are otherwise reasonable and appropriate.
- (viii) To ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the year ended 31 December 2017, the Remuneration Committee held three meetings to review the remuneration package, including the treatment and the vesting recommendations for the share options granted, of the Directors and senior management.

No individual Director is involved in deciding his or her own remuneration.

The remuneration of senior management was within the following bands:

The emolument bands (in HK\$)	Number of individuals	
	2017	2016
Nil to HK\$1,000,000	1	1
HK\$1,000,001 – HK\$2,000,000	2	2
HK\$2,000,001 – HK\$3,000,000	–	–
HK\$3,000,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$5,000,000	–	–
Above HK\$5,000,000	–	–

Nomination Committee

The Nomination Committee comprises the Chairman and two INEDs, and is chaired by the Chairman. The Company Secretary acts as the secretary to the Nomination Committee.

The Nomination Committee is guided by its terms of reference, which sets out its responsibilities. It is responsible for the review of candidates for nomination or re-nomination as Directors, taking into consideration each candidate's qualifications and experience and how he/she can contribute to the effectiveness of the Board. The Nomination Committee is also responsible for recommending a framework for evaluation of the Board effectiveness, as well as evaluation of Board effectiveness and the contribution of each individual Director to the effectiveness of the Board.

The terms of reference of the Nomination Committee are posted on the Company's website and include the following:

- (i) To review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.
- (ii) To be responsible for nominating for the approval of the Board, candidates to fill Board vacancies as and where they arise.
- (iii) Before appointment is made by the Board, evaluate the balance of skill, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment.
- (iv) To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.

Corporate Governance Report

- (v) To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the CEO.
- (vi) To assess the independence of INEDs.
- (vii) To review the Board Diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and make disclosure of its review results in the Corporate Governance Report of the Company.
- (viii) To do any such things to enable the Nomination Committee to discharge its duties conferred on it on by the Board.

During the year ended 31 December 2017, the Nomination Committee held three meetings to review the composition of the Board, the suitability of Directors proposed for re-appointment at the AGM and the candidates for nomination as Directors.

The Nomination Committee is also charged with the responsibility of determining annually whether a Director is independent. Each member of the Nomination Committee will not take part in determining his/her own re-nomination or independence.

Under the articles of association of the Company, at least one-third of the Directors are required to retire from office by rotation and they are eligible for re-election at the AGM. Thus, each Director must retire from office at least once every three years. In addition, all Directors appointed to fill a vacancy are subject to re-election at the first general meeting of shareholders after appointment in accordance with Article 86(3) of the Company's articles of association.

The Nomination Committee had recommended the re-nomination of Ms. Cheung Siu Wan, Dr. Chan Yee Kwong and Mr. Deng Heng for re-election at the forthcoming AGM. The Board had accepted the Nomination Committee's recommendation.

Meetings Held and Attendance

Details of Directors' attendance of the Board meetings, three committees meetings and the AGM held during the year ended 31 December 2017 are set out as follows:

Name of Director	Meetings attended/Meetings held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM held on 28 June 2017
Executive Directors					
Mr. Wang Jian Sheng (<i>Chairman</i>)	13/13	N/A	3/3	3/3	1/1
Mr. Yao Guoliang (<i>CEO</i>)	13/13	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Ms. Cheung Siu Wan	13/13	2/2	N/A	3/3	1/1
Mr. Guo Yan Jun (resigned on 1 January 2018)	12/13	2/2	2/3	2/3	1/1
Ms. Lin Yan (resigned on 1 July 2017)	2/3	1/1	1/2	N/A	0/1
Dr. Chan Yee Kwong (appointed on 1 July 2017)	10/10	1/1	1/1	N/A	N/A

Apart from regular Board meetings, the Chairman also held meeting with INEDs without presence of executive Director during the year.

Apart from the AGM held on 28 June 2017, the Company has not held any other general meetings.

CORPORATE GOVERNANCE FUNCTIONS

The Board did not establish a corporate governance committee but has delegated its responsibility for performing corporate governance duties to the respective Board committees. During the year, the Board and Board committees have reviewed the Group's policies and practices on corporate governance and made recommendations to the Board; reviewed and monitored the training and continuous professional development of Directors and senior management; reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements; reviewed and monitored the code of conduct and the compliance manual applicable to employees and Directors; and reviewed the Group's compliance with the CG Code and disclosure in the Corporate Governance Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiries by the Company, all Directors have confirmed that they had complied with the required standards set out in the Model Code during the year.

The Company has established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished inside information in relation to the Company or its securities. The Company has received written annual compliance declaration from employees to confirm their compliance.

INDUCTION AND CONTINUOUS DEVELOPMENT OF DIRECTORS

All Directors, upon appointment to the Board, shall receive an induction package (the "Package") designed to enhance their knowledge and understanding of the Group's culture and operations by senior management. The Package usually includes a briefing on the Group's structure, businesses and governance practices. Every Board member receives a memorandum on Director's responsibilities upon joining the Board, which lays down the guidelines on conduct, Directors' duties, and other key governance issues.

The Company provided continuous professional training and all Directors (namely, Mr. Wang Jian Sheng, Mr. Yao Guoliang, Ms. Cheung Siu Wan, Mr. Guo Yan Jun (resigned on 1 January 2018), Ms. Lin Yan (resigned on 1 July 2017), Dr. Chan Yee Kwong (appointed on 1 July 2017) and Mr. Deng Heng (appointed on 1 January 2018)) received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are also encouraged to attend relevant training courses at the Company's expense.

COMPANY SECRETARY

The appointment and removal of the Company Secretary is subject to the Board's approval in accordance with the articles of association of the Company. Ms. Wong Wai Han ("Ms. Wong") had been appointed as the Company Secretary since 31 July 2012. Ms. Wong resigned as the Company Secretary with effect from 14 February 2018. Mr. Lai Yang Chau, Eugene ("Mr. Lai") has been appointed as the Company Secretary with effect from 14 February 2018.

Ms. Wong is currently a practicing solicitor in Hong Kong. She has experience in corporate finance and compliances matters for the listed companies in Hong Kong. Ms. Wong obtained a bachelor of laws from City University of Hong Kong in 1998 and obtained the second degree in Chinese laws from Tsinghua University in 2004. Ms. Wong is also one of the joint company secretaries of Techcomp (Holdings) Limited (stock code: 1298) whose shares are listed on the main board of the HKEx and the Singapore Exchange Securities Trading Limited. Ms. Wong is an associate of Stephenson Harwood, a practicing law firm in Hong Kong. She is not an employee of the Company and she provides services to the Company as an external service provider. Ms. Wong has complied with the requirement under Rule 3.29 of the Listing Rules during the year.

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Mr. Lai is currently a practicing solicitor in Hong Kong. He has experience in corporate finance, cross border merger and acquisition, and securities laws in Hong Kong. Mr. Lai obtained a bachelor of laws degree from the University of Hong Kong in 1992, a master of laws degree on Chinese laws from Renmin University of China in 1998, and an EMBA-Global Asia degree conferred jointly by Columbia University, London Business School and the University of Hong Kong in 2012. He has also completed Senior Executive Program for China (class 2011), jointly organised by Harvard Business School, Tsinghua University and China Europe International Business School. Mr. Lai is currently an independent non-executive director of Link Holdings Limited (stock code: 8237) whose shares are listed on the Growth Enterprise Market of the HKEx, and one of the joint company secretaries of Sinopec Kantons Holdings Limited (stock code: 934) whose shares are listed on the main board of the HKEx. He is not an employee of the Company and he provides services to the Company as an external service provider.

The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with the Management. The Company Secretary will undertake at least 15 hours of relevant professional training in the year ending 31 December 2018 to update his skills and knowledge.

The external service provider's primary contact person of the Company is Mr. Li Chik Ming, the chief financial officer of the Company, in relation to any corporate secretarial matters.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for the preparation of consolidated financial statements which give a true and fair view of the state of affairs of the Group. In preparing the consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

In preparing the consolidated financial statements, the Directors consider that the consolidated financial statements of the Group are prepared on a going concern basis and appropriate accounting policies have been consistently applied. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the consolidated financial statements.

The statement of the external auditor about the reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 39 to 43 of the Report.

AUDITOR'S REMUNERATION

Auditor's remuneration in relation to audit amounted to HK\$1,860,000 (2016: HK\$1,290,000). The external auditor is refrained from engaging in non-assurance services except for limited tax related services or specifically approved items. The Audit Committee reviews and approves the external auditor's statutory audit scope and non-audit services. The following remuneration was paid by the Group to its auditor, Messrs. Deloitte Touche Tohmatsu:

	2017 HK\$'000	2016 HK\$'000
Audit service	1,860	1,290
Non-audit services	981	86
	2,841	1,376

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the maintenance of sound and effective internal controls to safeguard the shareholders' investment and the Group's assets. The Board has entrusted the Audit Committee with the responsibility to review, and has delegated to the Management the implementation of such systems of internal controls as well as the review of relevant financial, operational, and compliance controls, and risk management system.

A risk management system is in place to ensure the regular identification, evaluation and management of risks faced by the Group. Procedures have been set up for, inter alia, safeguarding assets against unauthorised use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications. The system is regularly reviewed by the Board and amended from time to time.

Formal risk management policies have been put in place to ensure the regular identification, evaluation and management of risks faced by the Group. The system and policies of the Group are designed to help minimise and manage business risks, protect the assets of the Group from misappropriation or impairment, accurately report the results and financial position of the Group, ensure compliance with relevant legal and regulatory requirement, and adopt appropriate recommended best practices. This includes taking into consideration in relation to environmental, social, and corporate governance matters.

The Management maintains and monitors the internal control systems on an ongoing basis. Risk assessment and evaluation are an integral part of the annual planning process. Our internal audit team performs regular review on our internal control system and risk assessment system and reports its recommendation to the Audit Committee. In addition, the Group's external auditor, Messrs. Deloitte Touche Tohmatsu, reports findings to the Audit Committee and contributes an independent perspective on relevant internal controls arising from the audit. The Audit Committee reports to the Board on matters in relation to the oversight of the financial reporting system, internal control procedures and risk management system. The Board has conducted a review on the effectiveness of Company's internal control systems for the year ended 31 December 2017 by considering the work performed by the Audit Committee.

In addition to the internal control review conducted by the Board, the Group has engaged an independent risk advisory consultant from one of reputable accountancy and professional services firms to review the effectiveness of risk management system by performing risk assessment procedures in respect of our risk management functions in relation to the policies and procedures of the hedging activities and proprietary trading activities for the year ended 31 December 2017. Report on the results of assessment and recommendations were provided to the Management and the Audit Committee as well as the Board.

The Audit Committee considered that there was no significant breach of limits or risk management policies during the year that would bring to the attention of the Board. The Board considers that both the risk management and internal control systems are effective and adequate. The Board, with the Management, is following up the recommendations provided by our review team and independent risk advisory consultant in order to enhance the risk management frameworks and procedures of the Company.

A compliance manual has been set to summarise the principal legal, regulatory and compliance issues relating to the Group and its employees. It includes the definition of inside information and also establishes general policies and procedures for handling and dissemination of inside information. The compliance manual would be regularly reviewed and updated to keep abreast with the circumstance.

Corporate Governance Report

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board recognises the importance of maintaining on-going communication with shareholders. The Company promotes communications with shareholders through several communication channels including publication of circulars and announcements of key developments, interim and annual reports as prescribed under the Listing Rules which can also be accessed via the "Investor Relations" section of the Company's website.

The aims of the Company are to improve its transparency, allow the stakeholders to gain more understanding and confidence in relation to the Group's business developments and acquire more market recognition and support from the shareholders.

Shareholders are encouraged to attend all general meetings of the Company. The notice of the AGM was circulated to all shareholders in accordance with the requirements of the Listing Rules and the articles of association of the Company. It is a standard practice to have the non-executive Directors available to answer questions relating to their roles, tenure, and the Board Committees. The results of voting by poll are published on the websites of the HKEx and the Company after the meetings.

Pursuant to the Company's articles of association, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene an extraordinary general meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Shareholders may at any time send their enquiries to the Board in writing through Mr. Li Chik Ming, the chief financial officer of the Company, whose contact details are as follows:

Mr. Li Chik Ming
Chief Financial Officer
Strong Petrochemical Holdings Limited
Room 1604, 16th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong
Tel: (852) 2834 3393
Email: info@strongpetrochem.com

There was no change to the Company's memorandum and articles of association during the year ended 31 December 2017.

The Company adheres the importance of the shareholders' privacy and will not disclose such information without their consent, unless required by law, the HKEx, order or requirement of any court or other competent authority.

Environmental, Social and Governance Report

This Environmental, Social and Governance Report focuses on our ongoing activities to protect the environment, enhance the employment and labour standards, and reciprocate the community during the year ended 31 December 2017.

The Group values stakeholders' feedback which can help us improve our performance related to environmental, social and governance continuously. Suggestions can be sent to us via e-mail at info@strongpetrochem.com.

ENVIRONMENTAL

We try all means to protect the environment by minimising the environmental impacts from our operation. In view of the business nature of Strong Nantong, we always comply with the requirements promulgated by the Ministry of Environmental Protection of the PRC ("MEP") and the Department of Land and Resources of the PRC and we also try to improve our standard of environmental protection measures which are no less stringent than the aforesaid requirements.

To operate the storage facilities of Strong Nantong, we have complied with the requirements set by Jiangsu Province Environmental Protection Bureau, including level 3 requirement of the Integrated Wastewater Discharge Standard and Integrated Emission Standard of Air Pollutants, and level 3 requirement of the Environmental Quality Standard for Noise established by MEP which stated the limitation on wastewater discharge, air pollutants and odor pollutants respectively.

The sewage treatment of Strong Nantong, which consumed 1,908 MT of wastewater in 2017 (2016: 1,400 MT), met the requirement of the Integrated Wastewater Discharge Standard. The wastewater produced, mainly comprised ground flushing water, initial rain and sanitary sewage, was discharged to the sewage treatment plant. Since the development of Strong Nantong in 2007, we proactively strengthen the control on the exhaust emission and make sure we meet level 2 requirement of the Integrated Emission Standard of Air Pollutants and Emission Standards for Odor Pollutants. Strong Nantong set up the oil gas reclamation plant and 28 MT of gasoline were reclaimed in 2017 (2016: 27 MT). This facility can effectively control the emission of hazardous air pollutants. Besides, Strong Nantong uses inner floating roof tanks for storage, strengthens the relevant inspection and maintenance, and carries out detection and repairment on all its storage tanks so as to reduce the evaporation of the petrochemicals and the potential air pollutants.

Strong Nantong makes every endeavor to comply with the requirements as stated in the Integrated Wastewater Discharge Standard and Integrated Emission Standard of Air Pollutants.

In 2017, Strong Nantong conformed to the wastewater discharge and the air pollutants emission limit agreed with the Environmental Protection Bureau in Nantong City. Details of limitation and actual performance are listed below.

	Limitation	2017	2016
Integrated Wastewater Discharge Standard			
Chemical oxygen demand	0.68 MT/annum ("t/a")	0.34 t/a	0.25 t/a
Ammonia nitrogen	0.07 t/a	0.035 t/a	0.026 t/a
Suspended petroleum	0.033 t/a	0.017 t/a	0.012 t/a
Integrated Emission Standard of Air Pollutants			
Non-methane hydrocarbon emission volume	58.21 t/a	27.72 t/a	37.82 t/a
Methylbenzene emission volume	2.4 t/a	0 t/a	0.6 t/a
Methanol emission volume	2.4 t/a	0 t/a	1.296 t/a

Environmental, Social and Governance Report

Strong Nantong consumed 491,605 kilowatt hour (“kWh”) of electricity and 1,781 MT of water in 2017, while 449,455 kWh of electricity and 1,780 MT of water were consumed in 2016. The employees of Strong Nantong moved to a new building used as the staff quarter led to an increase in electricity consumption in 2017.

In 2017, Strong Nantong enhanced the analysis and examination procedure for water resources, water intake, water utilization and water saving measures. We enhanced water saving management and implemented water utilisation plans. Although we moved our staff quarter to a new building, the consumption for water in 2017 remained almost the same as that in 2016.

During the year, Strong Nantong produced non-hazardous waste of 12.0 MT. In order to reduce the waste, we set up waste separation facilities and encourage our employees to take part in waste reduction and recycling.

The Group tries its best not only to promulgate the environmental policy on storage facilities, but also on office management. The Management closely monitors the utilities consumption in different offices and encourages employees to work together on reducing utilities consumption.

We consider electricity consumption as major source of our offices’ indirect greenhouse gas emission. During the year, our Hong Kong office, our Macao office and our Singapore office consumed 22,506 kWh, 21,590 kWh, 11,243 kWh of electricity respectively.

Considering that air travel will substantially increase the carbon footprint, we continue to advocate the use of video conferencing or telephone conferencing as a substitute to business travel. In order to raise our employees’ environmental consciousness, we encourage them to adopt green lifestyle in office. To minimise paper usage, our employees are encouraged to use recycled paper and print on both sides of paper, and reuse stationery, such as used envelope. We support Energy Saving Charter on Indoor Temperature. To save energy, we maintain an average indoor temperature between 24 and 26 degrees Celsius during summer time, and recommend the employees to set the computer system to standby or sleeping mode when the computers are idle for 15 minutes. Besides, we regularly send out e-reminders regarding energy saving to remind employees of environmental protection in our workplace.

Given the Group’s principal business is trading of oil products, no packaging material will be used for our products.

EMPLOYMENT AND LABOUR STANDARDS

The Group is an equal opportunities employer and commits to eliminating and preventing discrimination, harassment and vilification of any kind and promoting a fair treatment and diversity in the employment, including the process and procedure of recruitment, job advertisement, screening and selection, future training, career development and promotion of employees, and dismissal.

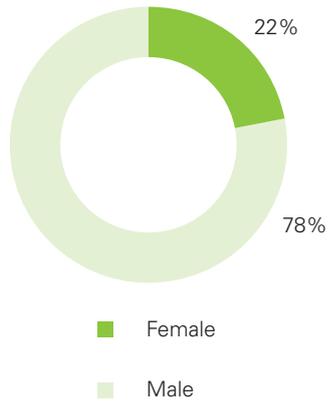
To achieve this end, the Group strictly prohibits discrimination of any kind against any person’s age, gender, marital status, pregnancy, family status, disability, race, color, descent, nationality, religion, and ethnicity. We also carefully select our employees to avoid child and forced labour during the recruitment process.

As such, the Group fully complies with the laws related to the employment of child and forced labour of the jurisdictions we operate in. To the best of the Directors’ knowledge and belief, the Group is in compliance with applicable local laws and regulations concerning employment, anti-discrimination and equal opportunity for the year ended 31 December 2017.

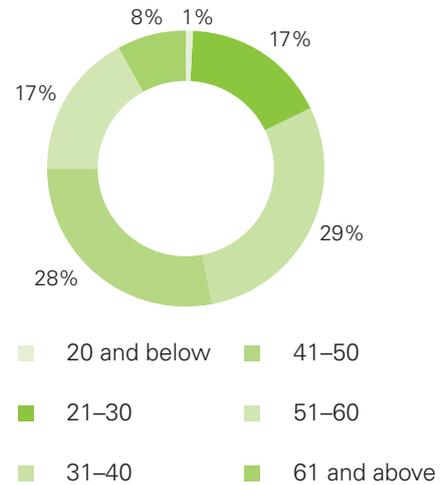
Environmental, Social and Governance Report

As at 31 December 2017, the Group employed 81 employees (31 December 2016: 84). Below diagrams demonstrate the current census of the employees in the Group, in terms of gender, age group, education level, employment type and staff grade.

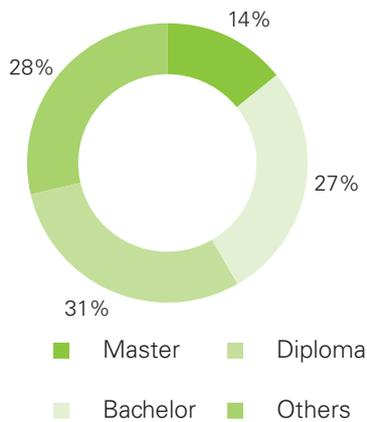
GENDER



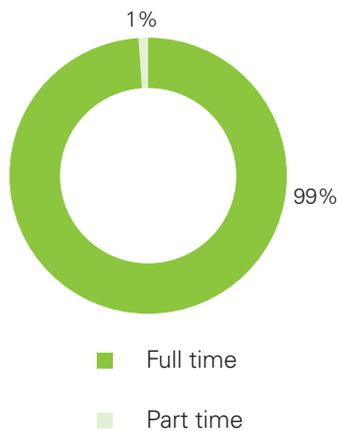
AGE GROUP



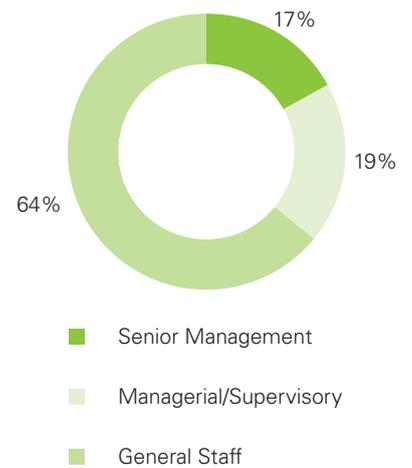
EDUCATION LEVEL



EMPLOYMENT TYPE



STAFF GRADE



Environmental, Social and Governance Report

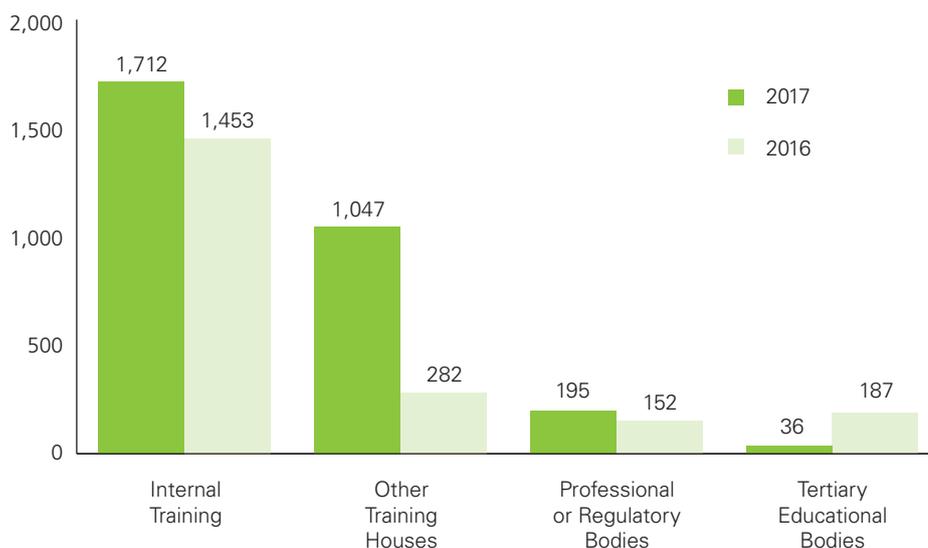
TRAINING AND DEVELOPMENT

The Group always encourages our employees in upgrading themselves by taking job-related training courses in order to strengthen their existing job skills and knowledge. Even though most of the employees have already possessed high academic level or obtained professional qualified recognition, we still encourage continuous career development of our employees.

To provide flexibility in the continuous career development of our employees, we provide training sponsorship that offers financial subsidy to our employees for attending business seminars, workshops, or trainings in relation to the business needs. The policy also applies to those who take academic subjects relating to business administration, finance and taxation programmes.

In 2017, there are different types of trainings our employees received as per their job needs. The total number of training hours received is around 2,990 (2016: 2,074), which include trainings conducted via internal training, professional or regulatory bodies, tertiary educational bodies for academic level upgrading courses, and other training houses.

Total training hours received via different training channels



HEALTH AND SAFETY

The Group takes occupational safety as the first priority, we commit to providing the health, safety and welfare of the employees. We pledge to comply with all occupational health and safety legislations, in order to maintain high standards of occupational safety and health across our operations globally. Preventive and corrective measures are implemented, as required, to minimise potential hazards and accidents.

Strong Nantong is required to carry out occupational safety measures for its storage facilities and warehouse. For example, Strong Nantong has set up safety evaluation report and occupational hazardous assessment. It has also arranged a fire safety company to perform safety check on Strong Nantong's fire safety equipment periodically. During the year, Strong Nantong obtained the level 2 qualification of provincial state work safety standard.

Employees are required to undergo safety training regularly as per their job responsibilities. In 2017, Strong Nantong has arranged internal safety trainings for the personnel, e.g. rehearsal for work safety incidents, rehearsal for anti-leakage, and trainings for usage of self-contained breathing apparatus.

In 2017, there is neither fatality nor permanent disablement cases recorded.

Environmental, Social and Governance Report

Staff benefits and welfare

Besides the local regulations, employees are entitled to other leave entitlements such as marriage leave, compassionate leave, study or examination leave, jury leave, and various fringe benefits including group insurance schemes.

With the well-developed benefit schemes and the pleasant working condition in each office, the remuneration package offered is, in general, in line with the market. Therefore, the turnover rate of the Group is able to be retained as low as below 1% in 2017 (2016: below 1%).

The Group values work-life balance and tries to enhance employees' sense of belonging and morale. Due to geographical location, festival parties and occasional luncheon meetings were arranged locally in each office. Annual dinner is usually arranged locally or in a specific office location as per the Management's decision.

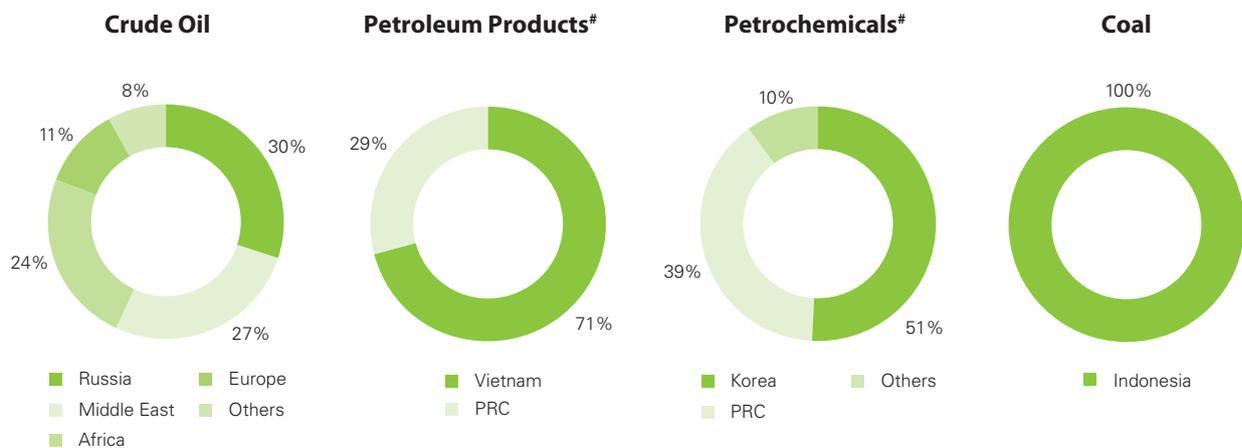
Besides, the Group pays attention to our employees and tries all means to improve the working environment. To ensure the employees have sufficient rest hour, Strong Nantong improved its shift system from two-shift to four-shift since 2016.

Staff communications

The Group evaluates the performance of the employees via appraisals. Career development plan and the goals will be communicated between employees and supervisors on a regular basis. Employees are treated equally in terms of the opportunity for promotion and salary review. They are also offered equal opportunities to attend relevant training and development programmes based on their strengths and needs.

OPERATING PRACTICES

The Group sets up guidelines on the transactions with oil suppliers so as to prevent conducting trading with oil suppliers under international sanctions. Since 2016, the Group has set up a manual regarding the selection of oil suppliers who can meet our operating requirements. The sources of our crude oil, petroleum products, petrochemicals and coal in 2017 are shown as below:



* As petroleum products and petrochemicals are processed through several production procedures, their sources are defined based on the business location of the Group's suppliers.

Environmental, Social and Governance Report

The Group's principal business is trading of energy products, therefore, the products and services we provided have limited relationship with health and safety, advertising, labelling and privacy matters affecting the public directly.

Since 2009, a compliance manual regarding ethical standards for all senior executives and employees has been adopted. This serves as a communication about top management's emphasise on work ethics, as well as a guideline about how senior executives and employees should behave to meet the ethical standards. We communicate with our employees about the idea of anti-corruption through the compliance manual. Employees are encouraged to report any suspected cases to the compliance officer. Since the establishment of the Group till 31 December 2017, there is no concluded legal cases regarding corrupt practices brought against the Group or our employees.

In order to maintain good corporate governance, a whistleblowing policy has been established since 2015. In the whistleblowing policy, procedures are established for employees to report suspected irregularity, misconduct or malpractice. Employees making genuine and appropriate complaints are assured of protection.

COMMUNITY INVOLVEMENT

The Group commits to be a responsible corporation and makes contribution to the community as it should do.

Since 2015, the Group has partnered with Youth College, a member institution of Vocational Training Council, and started a scholarship programme, where the Group has sponsored a total of 60 students, with financial subsidies during this 3-year scholarship programme. During this 3-year scholarship programme, 20 students will be nominated in each academic year to receive this scholarship if they are considered having positive attitude and satisfactory performance. The scholarship programme has been renewed in 2017. Starting from 2018, the Group will increase the annual scholarship amount to HK\$50,000 for a duration of 3 consecutive school calendar years. The scholarship programme will be reviewed in 2020.

During the year, we have also made a donation of HK\$128,000 to the Centre of Buddhist Studies of the University of Hong Kong.

Meanwhile, the Group encourages our employees to participate actively in voluntary activities in leisure time to help people in need. The Group has planned in the coming future, to participate more in donations and charity activities to those in need.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal associates and subsidiaries are set out in notes 17 and 38 to the consolidated financial statements respectively.

BUSINESS REVIEW

Detailed business review as required by Schedule 5 to the new Companies Ordinance (Cap. 622), including the particulars of important events affecting the Group, a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis of the Group's performance using financial key performance indicators, is set out in the Chairman's Statement and the Management Discussion and Analysis on pages 4 to 6 and pages 7 to 10 respectively.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Environmental policies have been adopted by the Group for the implementation of environmentally friendly measures and practices in the operation of the Group's businesses, which include, among others, discharging wastewater produced to sewage treatment plant, encouraging employees to adopt green lifestyle in office by using recycled paper and printing on both sides and encouraging the use of video conferencing or telephone conferencing as a substitute to business travel.

The Group has also reviewed its environmental policies and performance from time to time in order to minimise the environmental impacts from our operations. During the year, the Company was not aware of any non-compliance with any regulations related to environmental protection that had a significant impact on the Group.

Detailed environmental policies and performance of the Group are set out in the Environmental, Social and Governance Report on pages 25 to 30.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees

Employees are regarded as one of the most important and valuable assets of the Group. The Group strives to reward and recognise performing employees by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers and Suppliers

The Group maintains stable and cooperative relationships with its customers. To ensure that our traded products remain competitive, the Group closely monitors market movements and collaborates with customers for new products development. Our traders communicate with our customers frequently to ensure different varieties of energy products the Group trades can meet the demands and changing requirements of customers. The Group also manages its relationship with suppliers to ensure reliability, stability and quality of different energy products supplied to the Group.

Directors' Report

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 44 to 45.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: HK6 cents per ordinary share of the Company).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from, Friday, 18 May 2018 to Thursday, 24 May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM to be held on 24 May 2018, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 17 May 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results, total assets and equity of the Group for the last five financial years/periods is set out on page 3.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2017, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$985.4 million.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Wang Jian Sheng
Mr. Yao Guoliang

Independent Non-executive Directors

Ms. Cheung Siu Wan
Mr. Guo Yan Jun (resigned on 1 January 2018)
Ms. Lin Yan (resigned on 1 July 2017)
Dr. Chan Yee Kwong (appointed on 1 July 2017)
Mr. Deng Heng (appointed on 1 January 2018)

In accordance with Article 87 of the Company's articles of association, Ms. Cheung Siu Wan should retire at the forthcoming AGM and, being eligible, offer herself for re-election at the forthcoming AGM.

In accordance with Article 86(3) of the Company's articles of association, Dr. Chan Yee Kwong and Mr. Deng Heng should retire at the forthcoming AGM and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Directors' biographical details are set out on pages 11 to 12.

The Company received confirmation from each of the INEDs of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all the INEDs as independent from the date of their appointment to 31 December 2017.

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in the section headed "Continuing Connected Transactions" of this report and note 31 to the consolidated financial statements, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the Directors, the management shareholders of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

Directors' Report

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of Company's associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the HKEx pursuant to the Model Code are set out below:

Long position in ordinary shares of HK\$0.025 each of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Number of underlying shares held	Total	Approximate percentage of the issued share capital of the Company (%)
Mr. Wang Jian Sheng	Interest of a controlled corporation (Note 1)	1,041,746,000	–	1,041,746,000	49.01
	Interest of concert parties (Note 2)	124,222,000	–	124,222,000	5.84
Mr. Yao Guoliang	Beneficial owner	124,222,000	–	124,222,000	5.84
	Interest of a controlled corporation (Note 1)	1,041,746,000	–	1,041,746,000	49.01

Notes:

1. Each of Sino Century and Jin Yao holds 50% of the entire issued share capital of Forever Winner. Mr. Wang holds the entire issued share capital of Sino Century. Mr. Yao holds the entire issued share capital of Jin Yao.
2. Since Mr. Wang and Mr. Yao jointly control Forever Winner which in turn holds 1,041,746,000 shares of the Company, Mr. Wang and Mr. Yao are deemed as parties acting in concert. Therefore, as Mr. Yao currently beneficially owns approximately 5.84% equity interest in the Company, Mr. Wang shall be deemed to hold the same equity interest in the Company.

Save for those disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to Company and the HKEx pursuant to the Model Code.

Apart from the section headed "Share Options" as disclosed later in this report, none of the Directors or chief executive of the Company (including their spouses and children under the age of 18), during the year ended 31 December 2017, held any interests in or was granted any right to subscribe for the securities of Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

SHARE OPTIONS

In 2014, the old share option scheme adopted on 28 November 2008 (the "Old Share Option Scheme") was terminated and the new share option scheme (the "New Share Option Scheme") was adopted on 15 May 2014 in view of the New Share Option Scheme being able to provide the Company with more flexibility in long term planning of granting of the share options to the employees, Directors, consultants, advisers and shareholders of the Group in a longer period in the future so as to provide appropriate incentives or rewards to them for their contributions or potential contributions to the Group. The outstanding share options granted under the Old Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Share Option Scheme.

The movements in the share options of the Company under the Old Share Option Scheme during the year are set out as follows:

Nature or category of participant	Date of grant ⁽¹⁾ (dd/mm/yy)	Price of share of the Company			Number of share options ⁽²⁾				
		Exercise price HK\$	At the grant date of share options HK\$	At the exercise date of share options HK\$	Outstanding at 01/01/2017	Reclassification during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2017
INED									
Ms. Lin Yan ⁽³⁾	07/05/09	0.645	0.655	N/A	360,000	(360,000)	-	-	-
Subtotal of Directors					360,000	(360,000)	-	-	-
Employees	07/05/09	0.645	0.655	N/A	640,000	(400,000)	-	-	240,000
Other participants in aggregate	07/05/09	0.645	0.655	N/A	29,280,000	760,000	(4,100,000)	-	25,940,000
Total					30,280,000	-	(4,100,000)	-	26,180,000

Notes:

- Options granted are exercisable during the period starting from 8 May 2009 to 28 November 2018. The options granted under the Old Share Option Scheme has vesting period in three tranches of 40%, 30% and 30% of its options granted from the grant date to 8 May 2009, 8 May 2010 and 8 May 2011 respectively.
- During the year, no share options of the Company were lapsed.
- Ms. Lin Yan resigned as an INED with effect from 1 July 2017.

The movements in the share options of the Company under the New Share Option Scheme during the year are set out as follows:

Nature or category of participant	Date of grant ⁽¹⁾ (dd/mm/yy)	Price of share of the Company			Number of share options ⁽²⁾				
		Exercise price HK\$	At the grant date of share options HK\$	At the exercise date of share options HK\$	Outstanding at 01/01/2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2017
Other participants in aggregate	05/09/14	0.78	0.77	N/A	138,000,000	-	-	-	138,000,000
Total					138,000,000	-	-	-	138,000,000

Notes:

- Options granted are exercisable during the period starting from 6 September 2014 to 14 May 2024.
- During the year, no share options of the Company were lapsed or exercised.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any other person, (other than the interests of the Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company

Name of shareholder	Nature of interest	Number of ordinary shares	Approximate percentage of shareholding (%)
Forever Winner	Beneficial Owner (Note 1)	1,041,746,000	49.01
Mr. Yao Guoliang	Beneficial Owner	124,222,000	5.84
Hongkong Hengyuan Investment Limited	Beneficial Owner (Note 2)	353,603,681	16.63

Notes:

- Each of Sino Century and Jin Yao holds 50% of the entire issued share capital of Forever Winner. Mr. Wang holds the entire issued share capital of Sino Century. Mr. Yao holds the entire issued share capital of Jin Yao.
- Mr. Chang Liang holds the entire issued share capital of Hongkong Hengyuan Investment Limited.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into a tenancy agreement with Strong Property Limited, which constituted continuing connected transaction and related party transaction and is set out in note 31 to the consolidated financial statements.

The continuing connected transaction under the above tenancy agreement falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules and therefore is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements contemplated under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$168,000 (2016: HK\$40,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the five largest suppliers accounted for approximately 78% and 53% of the total sales and purchases for the year, respectively. The Group's largest customer and supplier accounted for approximately 49% and 19% of the total sales and purchases for the year, respectively.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has a beneficial interest in these major customers or suppliers.

EMOLUMENT POLICY

The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The Group implemented its remuneration policy, bonus and share option schemes based on the achievements and performance of employees.

The emoluments of the Directors will be decided by the Remuneration Committee having regard to the Group's operating results, individual performance and comparable market statistics. Details of Directors' emolument and other staff costs are set out in notes 10 and 9 respectively to the consolidated financial statements.

RETIREMENT BENEFIT SCHEME

Other than operating a Hong Kong Mandatory Provident Fund Scheme, participating in the defined contribution pension scheme operated by the Macao government authority, the Central Provident Fund operated by Singapore government and the PRC state-managed retirement benefit scheme, the Group has not operated any other retirement benefit scheme for the Group's employees. Particulars of the retirement benefit scheme are set out in note 30 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to a memorandum of agreement, Srithai, the Company's associate, agreed to dispose the Vessel to an independent third party in January 2018 at a price of approximately US\$15.2 million (equivalent to approximately HK\$118.6 million) and delivered the Vessel to the independent third party in mid-February 2018.

Saved as disclosed above, the Group had no significant events after 31 December 2017.

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "Share Options" of this report, no equity-linked agreements were entered into during the year or subsisted at the end of the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float.

AUDITOR

A resolution will be proposed at the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wang Jian Sheng

Chairman

22 March 2018

Deloitte.

德勤

To the Shareholders of
Strong Petrochemical Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Strong Petrochemical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 44 to 116, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables We identified the valuation of trade receivables as a key audit matter due to the significance of these balances to the Group's consolidated financial statements combined with the use of judgment and estimates in respect of the recoverability of trade receivables. As explained in note 4 to the consolidated financial statements, in determining the recoverability of trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. Details are set out in note 20 to the consolidated financial statements. As at 31 December 2017, the carrying amount of trade receivables is approximately HK\$1,691,405,000 (net of allowance for doubtful debts of nil).	<p>Our procedures in relation to the valuation of trade receivables included:</p> <ul style="list-style-type: none">• Obtaining an understanding of the assessment of recoverability of trade receivables by the management.• Testing the aging analysis of the trade receivables, on a sample basis, to the supporting documents including sales invoices.• Assessing the reasonableness of allowance for trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables.• Tracing a selection of the subsequent settlements to bank receipts.• Evaluating the historical accuracy of the allowance estimated by the management by comparing historical allowance made to the actual settlement and actual loss incurred.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of interests in associates</p> <p>We identified the valuation of interests in associates as a key audit matter due to the involvement of significant judgements and assumptions.</p> <p>As explained in note 4 to the consolidated financial statements, at 31 December 2017, the carrying amount of interests in associates is approximately HK\$101,989,000 and the Group has recognised share of loss of associates of approximately HK\$6,236,000 in 2017. The share of loss of associates is contributed by an associate, which is principally engaged in provision of petrochemicals storage services in the People's Republic of China. Its financial performance is highly dependent on the service charge of petrochemicals storage and the demand for petrochemicals storage, both of which are influenced by market conditions. This associate continues to be loss-making in 2017. This indicated that the carrying value of the interests in this associate may be impaired. Details are set out in note 17 to the consolidated financial statements.</p> <p>Management has performed an impairment assessment and concluded that there is no impairment in respect of interests in associates. This conclusion was based on a value in use calculation using a discounted cash flow model that required significant management judgements with respect to the discount rate and the underlying cash flows.</p>	<p>Our procedures in relation to the valuation of interests in associates included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the basis adopted in the valuation methodology prepared by the management. • Assessing the reasonableness of the key assumptions made by the management, including growth rates, gross profit margin and expected changes in capital expenditures with reference to current market circumstances. • Testing the appropriateness of key inputs applied by the management in preparing the cash flow forecasts against historical performance, including revenues, cost of sales and operating expenses and with reference to the future strategic plans of the associate. • Involving our internal valuation expert in evaluating reasonableness of the discount rate used in the impairment assessment. • Checking the sensitivity analysis performed by the management in respect of the growth rates and discount rate to evaluate the extent of impact on the value in use.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Au Mei Yin.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

22 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Continuing operations			
Revenue	5	12,162,601	8,617,315
Cost of sales		(11,975,477)	(8,268,272)
Gross profit		187,124	349,043
Other income	6(a)	75,009	110,542
Other gains and losses	6(b)	7,793	(12,248)
Fair value changes on derivative financial instruments		(60,646)	(202,644)
Distribution and selling expenses		(86,831)	(102,516)
Administrative expenses		(75,438)	(65,092)
Other expenses		(447)	(451)
Finance costs	7	(19,342)	(13,752)
Share of loss of associates		(6,236)	(21,486)
Share of loss of a joint venture		(1)	–
Profit before taxation		20,985	41,396
Taxation (charge) credit	8	(21)	1,476
Profit for the year from continuing operations	9	20,964	42,872
Discontinued operations			
Profit for the period from discontinued operations	11	–	133,049
Profit for the year		20,964	175,921
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		20,648	(16,753)
Reclassification of cumulative translation reserve to profit or loss upon disposal of subsidiaries		–	1,436
Fair value change of available-for-sale financial assets		–	(11,690)
Cumulative fair value change of available-for-sale financial assets recycled to profit or loss upon disposal		–	10,322
Other comprehensive income (expense) for the year		20,648	(16,685)
Total comprehensive income for the year		41,612	159,236

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTE	2017 HK\$'000	2016 HK\$'000
Profit (loss) for the year attributable to:			
Owners of the Company		21,234	172,157
Non-controlling interests		(270)	3,764
		20,964	175,921
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		41,846	155,463
Non-controlling interests		(234)	3,773
		41,612	159,236
Earnings per share	13		
From continuing operations and discontinued operations			
— basic (HK\$)		0.01	0.10
— diluted (HK\$)		0.01	0.10
From continuing operations			
— basic (HK\$)		0.01	0.02
— diluted (HK\$)		0.01	0.02

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment	14	84,805	82,768
Prepaid lease payments	15	18,153	17,395
Other assets	16	1,059	1,059
Interests in associates	17	101,989	99,822
Interest in a joint venture	18	77,999	–
		284,005	201,044
Current assets			
Inventories	19	32,243	931,471
Prepaid lease payments	15	462	432
Trade and bills receivables	20	2,192,760	1,416,841
Other receivables, deposits and prepayments	20	317,271	29,397
Taxation recoverable		147	325
Tax reserve certificate		2,475	–
Derivative financial instruments	26	93,266	120,683
Held for trading investments	21	304	29,281
Deposits placed with brokers	22	83,461	306,369
Pledged bank deposits	23	44,585	67,459
Bank balances and cash	23	715,085	230,256
		3,482,059	3,132,514
Current liabilities			
Trade and bills payables	24	2,203,898	689,529
Other payables and accrued charges	24	78,189	16,884
Receipts in advance		1,277	1,159
Taxation payable		27	–
Bank borrowings	25	–	1,178,306
Derivative financial instruments	26	103,673	218,304
		2,387,064	2,104,182
Net current assets		1,094,995	1,028,332
Net assets		1,379,000	1,229,376

Consolidated Statement of Financial Position

At 31 December 2017

	NOTE	2017 HK\$'000	2016 HK\$'000
Capital and reserves			
Share capital	27	53,143	44,200
Reserves		1,325,349	1,184,434
Equity attributable to owners of the Company		1,378,492	1,228,634
Non-controlling interests		508	742
Total equity		1,379,000	1,229,376

The consolidated financial statements on pages 44 to 116 were approved and authorised for issue by the Board of Directors on 22 March 2018 and are signed on its behalf by:

Wang Jian Sheng
DIRECTOR

Yao Guoliang
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Legal reserve	Share option reserve	Investment revaluation reserve	Translation reserve	Other reserve	Retained profits	Sub-total		
	HK\$'000	HK\$'000	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note 3)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	44,200	339,520	(1,922)	49	51,564	1,368	757	12,295	643,020	1,090,851	28,309	1,119,160
Exchange difference arising on translation	-	-	-	-	-	-	(16,762)	-	-	(16,762)	9	(16,753)
Reclassification of cumulative translation reserve to profit or loss upon disposal of subsidiaries (note 11)	-	-	-	-	-	-	1,436	-	-	1,436	-	1,436
Fair value change of available-for-sale financial assets	-	-	-	-	-	(11,690)	-	-	-	(11,690)	-	(11,690)
Cumulative fair value change of available-for-sale financial assets recycled to profit or loss upon disposal	-	-	-	-	-	10,322	-	-	-	10,322	-	10,322
Profit for the year	-	-	-	-	-	-	-	-	172,157	172,157	3,764	175,921
Total comprehensive (expense) income for the year	-	-	-	-	-	(1,368)	(15,326)	-	172,157	155,463	3,773	159,236
Contribution from a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	1,131	1,131
Disposal of subsidiaries (note 11)	-	-	-	-	-	-	-	-	-	-	(32,471)	(32,471)
Dividend paid (note 12)	-	-	-	-	-	-	-	-	(17,680)	(17,680)	-	(17,680)
	-	-	-	-	-	-	-	-	(17,680)	(17,680)	(31,340)	(49,020)
At 31 December 2016	44,200	339,520	(1,922)	49	51,564	-	(14,569)	12,295	797,497	1,228,634	742	1,229,376
Exchange difference arising on translation	-	-	-	-	-	-	20,612	-	-	20,612	36	20,648
Profit (loss) for the year	-	-	-	-	-	-	-	-	21,234	21,234	(270)	20,964
Total comprehensive income (expense) for the year	-	-	-	-	-	-	20,612	-	21,234	41,846	(234)	41,612
Issue of shares (note 27)	8,840	223,831	-	-	-	-	-	-	-	232,671	-	232,671
Issue of shares on exercise of share options (note 27)	103	3,714	-	-	(1,173)	-	-	-	-	2,644	-	2,644
Dividends paid (note 12)	-	-	-	-	-	-	-	-	(127,303)	(127,303)	-	(127,303)
	8,943	227,545	-	-	(1,173)	-	-	-	(127,303)	108,012	-	108,012
At 31 December 2017	53,143	567,065	(1,922)	49	50,391	-	6,043	12,295	691,428	1,378,492	508	1,379,000

Notes:

- The special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganisation to rationalise the Group structure prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- According to the law and regulation of Macao Special Administrative Region ("Macao"), a legal reserve is required to be established up to a minimum of 50% of the company's paid up capital and is established in any year in which a dividend is appropriated. A subsidiary of the Company established in Macao appropriated a final dividend for the year ended 31 March 2006 to its holding company, as a result, 50% of the issued capital of Macao Patacas ("MOP") 100,000 was transferred to the legal reserve.
- Other reserve was resulted from (i) the deemed disposal of partial interests in subsidiaries without losing the Group's control over the subsidiaries, and (ii) the difference between the fair value of ordinary shares issued by the Company and the carrying amount of the additional interests in a subsidiary acquired by the Group in previous years.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	20,985	176,370
Adjustments for:		
Bank interest income	(1,870)	(504)
Interest income from loans receivables	(12,731)	(1,661)
Dividend income from held for trading investments	(725)	(781)
Finance costs	19,342	15,445
Depreciation	7,074	16,599
Release of prepaid lease payments	447	668
(Gain) loss on change in fair value of held for trading investments	(7,011)	2,192
Gain on disposal of subsidiaries	–	(121,139)
Loss on disposal of property, plant and equipment	1	5
Loss on disposal of available-for-sale financial assets	–	10,322
Share of loss of associates	6,236	21,486
Share of loss of a joint venture	1	–
Operating cash flows before movements in working capital	31,749	119,002
Decrease (increase) in inventories	899,458	(519,286)
Increase in trade and bills receivables	(774,127)	(223,156)
(Increase) decrease in other receivables, deposits and prepayments	(287,055)	110,731
Increase in tax reserve certificate	(2,475)	–
Increase (decrease) in trade and bills payables	1,512,586	(157,366)
Increase (decrease) in other payables and accrued charges	59,952	(73,066)
Increase (decrease) in receipts in advance	36	(32,525)
Change in derivative financial instruments	(87,214)	101,522
Cash generated from (used in) operations	1,352,910	(674,144)
Interest paid and bank charges	(19,342)	(15,445)
Income tax paid	(3)	(1,394)
Income tax refunded	210	346
NET CASH FROM (USED IN) OPERATING ACTIVITIES	1,333,775	(690,637)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTE	2017 HK\$'000	2016 HK\$'000
INVESTING ACTIVITIES			
Advance of loans receivables		(256,200)	–
Acquisition of a joint venture		(78,000)	–
Purchase of held for trading investments		(13,203)	(1)
Purchase of property, plant and equipment		(2,119)	(20,439)
Repayment of loans receivables		256,200	51,425
Decrease (increase) in deposits placed with brokers		223,015	(256,229)
Proceeds from disposal of held for trading investments		49,965	–
Withdrawal (placement) of pledged bank deposits		22,874	(18,213)
Interest received		14,601	2,165
Proceeds from disposal of subsidiaries	11	–	150,475
Proceeds from disposal of available-for-sale financial assets		–	17,031
NET CASH FROM (USED IN) INVESTING ACTIVITIES		217,133	(73,786)
FINANCING ACTIVITIES			
New bank and other borrowings raised		15,143,742	4,759,543
Proceeds from issue of shares		232,671	–
Exercise of share options		2,644	–
Repayment of bank borrowings		(16,322,432)	(3,986,271)
Dividends paid		(127,303)	(17,680)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(1,070,678)	755,592
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		480,230	(8,831)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		230,256	242,226
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		4,599	(3,139)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		715,085	230,256

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 1 February 2008. The shares of the Company have been listed on the main board of the Stock Exchange since 12 January 2009. Its parent and ultimate holding company is Forever Winner International Ltd. ("Forever Winner"), a limited company incorporated in the British Virgin Islands. Mr. Wang Jian Sheng, the chairman and executive director of the Company and Mr. Yao Guoliang, the chief executive officer and executive director of the Company each holds 50% equity interest in Forever Winner. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 1604, 16th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, respectively.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are trading, of crude oil, petroleum products, petrochemicals and coal. Details are set out in note 38.

The Group's principal operations are conducted in Hong Kong, Macao, the People's Republic of China (the "PRC") and Singapore. The functional currency of the Company and most of its subsidiaries is United States Dollar ("US\$"), as the Group mainly trades in US\$ with its customers and suppliers. However, for the convenience of the financial statements' users, the consolidated financial statements are presented in Hong Kong Dollar ("HK\$").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

Amendments to HKAS 7 “Disclosure initiative”

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 37, the application of these amendments has had no impact on the Group’s consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers and the related amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance contracts ⁴
HK(IFRIC) — Int 22	Foreign currency transactions and advance consideration ¹
HK(IFRIC) — Int 23	Uncertainty over income tax treatments ²
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 “Financial instruments” with HKFRS 4 “Insurance contracts” ¹
Amendments to HKFRS 9	Prepayment features with negative compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKAS 28	Long-term interests in associates and joint ventures ²
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle ¹
Amendments to HKAS 40	Transfers of investment property ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

HKFRS 9 “Financial instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss; and
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial instruments: recognition and measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9.

All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model was to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January, 2018 would not have material differences as compared to the accumulated amount recognised under HKAS 39.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group is principally engaged in the trading of crude oil, petroleum products, petrochemicals and coal. Currently under HKAS 18, the Group recognises the revenue from the sale of crude oil, petroleum products, petrochemicals and coal when products are delivered and titles are passed and considers itself acting as a principal due to its significant exposure to inventory risk, credit risk of customers and latitude in establishing prices. HKFRS 15 has established new requirements and guidance on the principal versus agent considerations.

The directors of the Company anticipate that the application of HKFRS 15 may result in change in presentation and more disclosures but will not have a material impact on the results of the Group.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

HKFRS 16 “Leases” (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK\$12,726,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$611,000 as rights to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

HK(IFRIC)-Int 23 “Uncertainty over income tax treatments”

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used or proposed to be used by an entity in its income tax filings.

The directors of the Company do not anticipate the application of HK(IFRIC)-Int 23 will have a material impact on the taxation recognised on the ground that the field audit is at preliminary fact-finding stage as set out in note 8 and the relevant tax authority did not raise any disagreement up to the date of approving the issuance of these consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group’s financial performance and position and/or the disclosures to the Group’s consolidated financial statements when they became effective.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates or joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments in associates or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income taxes” and HKAS 19 (as revised in 2011) “Employee benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based payment” at the acquisition date (see the accounting policy); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current assets held for sale and discontinued operations” are measured in accordance with that standard.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebate and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group’s activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders’ rights to receive payment have been established.

The Group’s accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purposes, other than properties under construction as described below, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction, less their residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Prepaid lease payments represent leasehold interests in land under operating lease arrangements and are released over the lease term on a straight-line basis.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity ("foreign currencies") are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme"), Macao Social Security Fund and the state-managed retirement benefit scheme of the PRC and Singapore, which are defined contribution plans, are recognised as an expense when employees have rendered services entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets which is reported in the "other gains and losses" line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 35.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables and deposits, deposits placed with brokers, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all financial assets other than those at FVTPL, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are financial liabilities held for trading. A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses.

Other financial liabilities

Other financial liabilities, including trade and bills payables, other payables and bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payment to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in share option reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will continue to be held in share option reserve.

Share options granted to suppliers/consultants/advisers

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of trade receivables

In determining the recoverability of trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. Details are set out in note 20.

As at 31 December 2017, the carrying amount of trade receivables was approximately HK\$1,691,405,000 (2016: approximately HK\$1,415,849,000).

Valuation of interests in associates

The share of loss of associates is mainly contributed by an associate, which is principally engaged in provision of petrochemicals storage services. The service charge of petrochemicals storage and the demand for petrochemicals storage are influenced by the market conditions. This increased the risk that the carrying values of interests in the associate may be impaired if the situation is worse off. Details are set out in note 17.

The management has performed an impairment assessment and concluded that there is no impairment in respect of interests in associates. This conclusion was based on a value in use calculation using a discounted cash flow model that required significant management judgement with respect to the discount rate and the underlying cash flows.

As at 31 December 2017, the carrying amount of interests in associates is approximately HK\$101,989,000 (2016: approximately HK\$99,822,000) and for the year ended 31 December 2017, the Group has share of loss of associates of approximately HK\$6,236,000 (2016: approximately HK\$21,486,000).

Valuation of interest in a joint venture

The major asset of the joint venture is an intangible asset representing the licensing agreement related to lithium-ion battery business. The recoverable amount of the joint venture is highly dependent on the cash flows generated from the relevant intangible asset. Details of the joint venture are set out in note 18.

The management has performed an impairment assessment and concluded that there is no impairment in respect of interest in a joint venture. This conclusion was based on a value in use calculation using a discounted cash flow model that required significant management judgements with respect to the discount rate and the underlying cash flows.

As at 31 December 2017, the carrying amount of interest in a joint venture is approximately HK\$77,999,000 (2016: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. REVENUE AND SEGMENTAL INFORMATION

Revenue

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Segmental information

On 22 April 2016, the Group completed the disposal of the entire share capital of Strong Petrochemical (Asia) Company Limited ("Strong Asia") and its non-wholly owned subsidiary, Hainan Huizhi Petrochemical Fine Chemical Co., Ltd. ("Hainan Huizhi", together with Strong Asia, collectively, "Strong Asia Group"), which was engaged in manufacturing of petrochemicals. The financial information in respect of the discontinued operations are disclosed in more detail in note 11.

After the disposal of Strong Asia Group, the Group is currently principally engaged in trading of crude oil, petroleum products, petrochemicals and coal ("Trading business"). Accordingly, the Trading business as a whole constitutes one operating and reportable segment.

Information are reported to the chief executive officer of the Company, being the chief operating decision maker (the "CODM"), for the purpose of performance assessment and resource allocation. The CODM regularly reviews the Group's revenue and profit for the year as a whole, which are measured in accordance with the Group's accounting policies. No analysis of the Group's assets and liabilities by the respective business is regularly provided to the CODM for review. Accordingly, no segment information is presented.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

Continuing operations

	2017 HK\$'000	2016 HK\$'000
Trading business:		
Crude oil	11,384,202	8,311,350
Petroleum products	401,786	103,687
Petrochemicals	363,739	202,278
Coal	12,874	–
	12,162,601	8,617,315

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Revenue from major products (continued)

Geographical information

The Group's operations are currently carried out by the subsidiaries operating in Hong Kong, Macao, the PRC and Singapore. Based on the terms of the contracts, the products are arranged to be delivered to the designated location as specified by the customers.

The Group's revenue from external customers from continuing operations as categorised by the location of shipment/delivery as designated by the customers and information about the Group's non-current assets by geographic location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	–	1,449	1,110
Macao	–	–	598	735
PRC	8,701,732	5,590,659	242,166	164,679
Thailand	137,238	201,975	38,777	33,026
Malaysia	504,943	958,847	–	–
Korea	456,752	–	–	–
USA	674,394	444,606	–	–
United Arab Emirates	433,826	–	–	–
Singapore	313,311	67,260	1,015	1,494
Philippines	339,552	–	–	–
Indonesia	192,575	73,327	–	–
Egypt	–	401,342	–	–
India	–	118,381	–	–
Japan	–	760,918	–	–
Vietnam	283,345	–	–	–
Turkey	124,933	–	–	–
	12,162,601	8,617,315	284,005	201,044

Information about major customers

Revenue from customers of the corresponding year which contributed over 10% of the total sales of the Group are as follows:

Continuing operations

	2017	2016
	HK\$'000	HK\$'000
Customer A	5,945,038	4,580,784
Customer B	N/A*	1,002,264
Customer C	1,294,331	985,158

* Revenue below 10% of total sales for the respective year is not disclosed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. OTHER INCOME, GAINS AND LOSSES

Continuing operations

	2017 HK\$'000	2016 HK\$'000
(a) Other income		
Rental income from short-term leasing of unutilised property, plant and equipment and storage area of the rented vessel	18,316	35,683
Bank interest income	1,870	492
Dividend income from held for trading investments	725	781
Service income	–	56,160
Non-performance and insurance claims (Note)	31,200	5,898
Interest income from loans receivables	12,731	1,661
Others	10,167	9,867
	75,009	110,542
(b) Other gains and losses		
Unrealised gain (loss) on change in fair value of held for trading investments	4,030	(2,192)
Realised gain on change in fair value of held for trading investments upon disposal	2,981	–
	7,011	(2,192)
Loss on disposal of property, plant and equipment	(1)	(5)
Loss on disposal of available-for-sale financial assets	–	(10,322)
Others	783	271
	7,793	(12,248)

Note: During the year ended 31 December 2017, the Group entered into a contract with a supplier which is an independent third party for the purchase of products for the Group's trading business in petroleum products. Non-performance claim of HK\$31,200,000 was recognised in profit or loss as a result of the failure in delivery of product by that supplier as scheduled in accordance with the purchase contract.

7. FINANCE COSTS

Continuing operations

	2017 HK\$'000	2016 HK\$'000
Bank charges on letter of credit facilities	5,595	3,328
Interests on bank borrowings	13,747	10,424
	19,342	13,752

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

8. TAXATION (CHARGE) CREDIT

Continuing operations

	2017 HK\$'000	2016 HK\$'000
Current tax:		
PRC Enterprise Income Tax	(26)	(7)
Overprovision of taxation in prior years:		
PRC Enterprise Income Tax	5	–
Singapore Income Tax	–	1,483
	(21)	1,476

No provision for Hong Kong Profits Tax has been made for both years since tax losses were incurred for the subsidiaries with operations in Hong Kong or the assessable profit is wholly absorbed by tax losses brought forward.

Under the Enterprise Income Tax Law (the “EIT Law”) and Implementation Rules of the PRC, the tax rate of the PRC subsidiaries is 25% for both years.

Pursuant to the Decree Law No. 58/99M, Chapter 2, Article 12 dated 18 October 1999, issued by Macao, Strong Petrochemical Limited (Macao Commercial Offshore) (“Strong Petrochemical (Macao)”) is exempted from Macao Complementary Tax for both years.

No provision for Singapore Income Tax has been made for both years since tax losses were incurred for the subsidiary with operations in Singapore.

The Inland Revenue Department of Hong Kong (the “IRD”) initiated a field audit on Strong Petrochemical Holdings Limited and its group companies for the years of assessment from 2010/11 onwards in 2017. In March 2017, assessments/estimated assessments (the “Protective Assessments”) totalling HK\$10,725,000 for the year of assessment 2010/11 were issued to two of the Group’s subsidiaries. The relevant companies lodged objections against the Protective Assessments with the IRD and the tax demanded was held over on the condition that tax reserve certificates (“TRC”) would be purchased. As at 31 December 2017, the Group purchased TRC of HK\$2,475,000 in relation to year of assessment 2010/11. The potential tax liability (if any) in respect of the Protective Assessments for the year of assessment 2010/11 is dependent on the outcome of the field audit. Since the field audit is at the preliminary fact-finding stage, the directors of the Company consider that no provision for Hong Kong Profits Tax is necessary in the consolidated financial statements of the Group for the year in respect of the Protective Assessments. Subsequent to the year end and up till the date of approving the issuance of these consolidated financial statements, Protective Assessments totalling HK\$6,576,000 for the year of assessment 2011/12 were issued to the same Group’s subsidiaries in January 2018. The relevant companies lodged objections against the Protective Assessments with the IRD and the tax demanded was held over on the condition that TRC would be purchased. The Group further purchased TRC of HK\$1,200,000 in relation to year of assessment of 2011/12.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

8. TAXATION (CHARGE) CREDIT (CONTINUED)

Continuing operations (continued)

The taxation (charge) credit for the year can be reconciled to the profit before taxation as follows:

	2017 HK\$'000	2016 HK\$'000
Profit before taxation (from continuing operations)	20,985	41,396
Tax at applicable Hong Kong Profits Tax rate of 16.5%	(3,463)	(6,830)
Tax effect of income not taxable for tax purpose	524	469
Tax effect of expenses not deductible for tax purpose	(1,544)	(817)
Effect of tax exemption granted to Macao subsidiary	6,131	7,528
Tax effect of different rate of subsidiaries operating into other jurisdictions	599	(137)
Tax effect of share of loss of associates	(1,029)	(3,545)
Utilisation of tax losses previously not recognised	4,598	6,857
Tax effect of tax losses not recognised	(5,884)	(3,411)
Overprovision in prior years	5	1,483
Others	42	(121)
Taxation (charge) credit for the year	(21)	1,476

At the end of the reporting period, the Group has estimated tax losses of approximately HK\$205,000,000 (2016: approximately HK\$198,000,000) available for offset against future profits. No deferred tax asset had been recognised due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of approximately HK\$29,000,000 (2016: approximately HK\$28,000,000) that will expire up to 2022 (2016: 2021). Other losses may be carried forward indefinitely.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately HK\$8,572,000 (2016: approximately HK\$8,089,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

9. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

Continuing operations

	2017	2016
	HK\$'000	HK\$'000
Profit for the year is arrived after charging (crediting):		
Auditor's remuneration	1,985	1,425
Depreciation of property, plant and equipment	7,074	7,418
Release of prepaid lease payments	447	451
Net foreign exchange loss (gain)	1,685	(1,472)
Operating lease rentals in respect of storage facilities, a vessel and rented premises	67,528	65,761
Directors' emoluments (note 10)	435	420
Other staff costs		
Salaries, bonus and other allowances	31,836	31,374
Retirement benefit schemes contributions	1,345	1,314
	33,616	33,108
Cost of inventories recognised as an expense (included in cost of sales)	11,975,477	8,268,272

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 6 (2016: 5) directors and the chief executive were as follows:

	Executive directors		Independent non-executive directors				Total HK\$'000
	Wang Jian Sheng	Yao Guoliang	Chan Yee Kwong [#]	Lin Yan [*]	Guo Yan Jun ^{**}	Cheung Siu Wan	
	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Fees	-	-	75	60	120	180	435
Other emoluments							
Salaries and other benefits	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-
Discretionary bonus	-	-	-	-	-	-	-
Contributions to retirement benefits schemes	-	-	-	-	-	-	-
Total emoluments for the year ended 31 December 2017	-	-	75	60	120	180	435

	Executive directors		Independent non-executive directors			Total HK\$'000
	Wang Jian Sheng	Yao Guoliang	Lin Yan [*]	Guo Yan Jun ^{**}	Cheung Siu Wan	
	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	
Fees	-	-	120	120	180	420
Other emoluments						
Salaries and other benefits	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-
Discretionary bonus	-	-	-	-	-	-
Contributions to retirement benefits schemes	-	-	-	-	-	-
Total emoluments for the year ended 31 December 2016	-	-	120	120	180	420

Note: Mr. Yao Guoliang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

[#] Appointed on 1 July 2017

^{*} Resigned on 1 July 2017

^{**} Resigned on 1 January 2018

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

(CONTINUED)

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, none (2016: none) was director of the Company. The emoluments of the five (2016: five) individuals were as follows:

	2017	2016
	HK\$'000	HK\$'000
Salaries and other benefits	11,169	9,699
Discretionary bonus	679	4,408
Contributions to retirement benefits schemes	163	183
	12,011	14,290

Their emoluments were within the following bands:

	2017	2016
	No. of	No. of
	employees	employees
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$3,000,000	2	–
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$6,500,001 to HK\$7,000,000	–	1

During the year ended 31 December 2017, no emolument was paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2016: nil). None of the directors of the Company has waived or agreed to waive any emoluments during both years.

Notes to the Consolidated Financial Statements

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11. DISCONTINUED OPERATIONS

In prior year, the Group entered into a sale and purchase agreement with an independent third party to dispose of the entire share capital of Strong Asia, a company which owned 57% equity interest in Hainan Huizhi which carried out the Group's business in manufacturing of petrochemicals. The disposal was completed on 22 April 2016. Since then, the Group lost control of Strong Asia Group. The Group's business in manufacturing of petrochemicals was treated as discontinued operations.

The profit from the discontinued operations for the preceding period was analysed as follows:

	1.1.2016 to 22.4.2016 HK\$'000
Profit for the period	11,910
Gain on disposal of subsidiaries	121,139
	133,049

Discontinued operations

	1.1.2016 to 22.4.2016 HK\$'000
Profit for the period was arrived after charging (crediting):	
Auditor's remuneration	96
Depreciation of property, plant and equipment	9,181
Release of prepaid lease payments	217
Net foreign exchange gain	(74)
Operating lease rentals in respect of storage facilities, a vessel and rental premises	110
Directors' emoluments	-
Other staff costs	
Salaries, bonus and other allowances	5,043
Retirement benefit schemes contributions	351
	5,394
Cost of inventories recognised as an expense (included in cost of sales)	124,842
Bank interest income	(12)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

11. DISCONTINUED OPERATIONS (CONTINUED)

Discontinued operations (continued)

The results of Strong Asia Group for the preceding period were as follows:

	1.1.2016 to 22.4.2016 HK\$'000
Revenue	146,496
Cost of sales	(124,842)
Other income	12
Other gains and losses	(23)
Distribution and selling expenses	(485)
Administrative expenses	(5,413)
Other expenses	(217)
Finance costs	(1,693)
Profit before taxation	13,835
Taxation charge	(1,925)
Profit for the period	11,910
Profit for the period attributable to:	
Owners of the Company	7,797
Non-controlling interests	4,113
	11,910

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For the year ended 31 December 2017

11. DISCONTINUED OPERATIONS (CONTINUED)

Discontinued operations (continued)

The net assets of Strong Asia Group at the date of disposal were as follows:

	HK\$'000
An analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	226,445
Prepaid lease payments	30,442
Inventories	42,058
Trade receivables	809
Other receivables, deposits and prepayments	24,555
Bank balances and cash	6,381
Other payables and accrued charges	(25,721)
Receipts in advance	(10,039)
Bank and other borrowings	(226,903)
Taxation payable	(3,065)
Net assets disposed of Strong Asia Group	64,962
Non-controlling interests	(32,471)
Other payables	3,498
Reclassification of cumulative translation reserve to profit or loss upon disposal of Strong Asia Group	1,436
	37,425
Gain on disposal	121,139
Total consideration	158,564
Satisfied by:	
Cash	156,856
Deferred cash consideration	1,708
	158,564
Net cash inflow arising on disposal:	
Total cash consideration received	156,856
Bank balances and cash disposed of	(6,381)
	150,475
	1.1.2016 to 22.4.2016 HK\$'000
Net cash flows from operating activities	10,425
Net cash flows used in investing activities	(13,289)
Net cash flows used in financing activities	(2,367)
Effect of foreign exchange rate changes	(138)
Net cash flows	(5,369)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

12. DIVIDENDS

	2017	2016
	HK\$'000	HK\$'000
Dividends recognised as distribution during the year:		
Final dividend paid:		
HK\$0.06 per share in respect of 2016 (2016: HK\$0.01 per share in respect of 2015)	106,081	17,680
Interim dividend paid:		
HK\$0.01 per share in respect of 2017 (2016: nil)	21,222	–
	127,303	17,680

The directors of the Company do not recommend the payment of final dividend for the year ended 31 December 2017.

13. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2017	2016
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company)	21,234	172,157
	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,923,593,721	1,768,018,409
Effect of dilutive potential ordinary shares:		
Share options of the Company	38,124,962	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,961,718,683	1,768,018,409

The calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company and the weighted average number of ordinary shares adjusted by the weighted average number of ordinary shares assumed to have been issued under the Company's share option schemes.

For the year ended 31 December 2016, there was no dilutive effect from the Company's outstanding share options as the exercise price of these share options was higher than the average market price of the Company's shares during that year.

Notes to the Consolidated Financial Statements

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13. EARNINGS PER SHARE (CONTINUED)

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data:

	2017 HK\$'000	2016 HK\$'000
Earnings		
Profit for the year attributable to owners of the Company	21,234	172,157
Less: Profit for the year from discontinued operations	–	(128,936)
Earnings for the purpose of calculating basic and diluted earnings per share from continuing operations	21,234	43,221

The calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company and the weighted average number of ordinary shares adjusted by the weighted average number of ordinary shares assumed to have been issued under the Company's share option schemes.

For the year ended 31 December 2016, there was no dilutive effect from the Company's outstanding share options as the exercise price of these share options was higher than the average market price of the Company's shares during that year.

From discontinued operations

For the year ended 31 December 2016, basic earnings per share for the discontinued operations was HK\$0.08 per share and the diluted earnings per share from discontinued operations was HK\$0.08 per share, based on the profit for the year from discontinued operations of HK\$128,936,000.

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Storage tanks	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicle	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST									
At 1 January 2016	43,582	126,427	1,067	203,179	1,682	2,277	7,767	235	386,216
Exchange realignment	62	(5,571)	-	(1,004)	1	(28)	(16)	(15)	(6,571)
Transfer	-	47	-	173	-	-	-	(220)	-
Additions	-	50	-	11,575	-	271	-	-	11,896
Disposals	-	-	-	(7)	(1)	(55)	-	-	(63)
Disposal of subsidiaries (note 11)	(41,945)	(37,759)	-	(194,406)	(944)	(491)	(2,154)	-	(277,699)
At 31 December 2016	1,699	83,194	1,067	19,510	738	1,974	5,597	-	113,779
Exchange realignment	-	5,832	-	1,368	-	42	19	-	7,261
Additions	-	2,440	-	541	12	314	380	-	3,687
Disposals	-	-	-	-	-	(122)	-	-	(122)
At 31 December 2017	1,699	91,466	1,067	21,419	750	2,208	5,996	-	124,605
ACCUMULATED DEPRECIATION									
At 1 January 2016	7,339	18,055	949	33,450	1,128	1,507	4,642	-	67,070
Exchange realignment	11	(944)	-	(388)	1	(12)	(14)	-	(1,346)
Provided for the year	1,434	5,367	75	8,333	100	289	1,001	-	16,599
Eliminated on disposals	-	-	-	(3)	(1)	(54)	-	-	(58)
Disposal of subsidiaries (note 11)	(7,743)	(7,020)	-	(34,228)	(510)	(305)	(1,448)	-	(51,254)
At 31 December 2016	1,041	15,458	1,024	7,164	718	1,425	4,181	-	31,011
Exchange realignment	-	1,226	-	573	-	19	18	-	1,836
Provided for the year	85	4,098	43	2,063	17	255	513	-	7,074
Eliminated on disposals	-	-	-	-	-	(121)	-	-	(121)
At 31 December 2017	1,126	20,782	1,067	9,800	735	1,578	4,712	-	39,800
CARRYING VALUES									
At 31 December 2017	573	70,684	-	11,619	15	630	1,284	-	84,805
At 31 December 2016	658	67,736	43	12,346	20	549	1,416	-	82,768

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For the year ended 31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum/over the following years:

Buildings	Over the shorter of the term of the lease, or 20 years
Storage tanks	Over the shorter of the term of the lease, or 20 years
Leasehold improvements	Over the shorter of the term of the lease, or 3–4 years
Plant and machinery	10%
Furniture and fixtures	20%–33 $\frac{1}{3}$ %
Office equipment	19%–33 $\frac{1}{3}$ %
Motor vehicle	17%–30%

As at 31 December 2016, certain of the Group's storage tanks and plant and machinery amounting to approximately HK\$50,923,000 (2017: nil) and approximately HK\$8,412,000 (2017: nil) respectively were pledged to secure certain bank borrowings granted to the Group.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold interest in land in the PRC for 50 years.

The amounts are analysed for reporting purposes as:

	2017 HK\$'000	2016 HK\$'000
Prepaid lease payments of the Group are analysed for reporting purpose as:		
Non-current asset	18,153	17,395
Current asset	462	432
	18,615	17,827

All of the prepaid lease payments are pledged to secure certain banking facilities granted to the Group.

16. OTHER ASSETS

The amounts represent a golf club membership and an art work that are carried at cost.

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For the year ended 31 December 2017

17. INTERESTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Cost of investments in associates, unlisted	141,846	141,846
Share of post-acquisition losses	(45,688)	(39,452)
Less: Impairment loss recognised	(4,410)	(4,410)
Exchange realignment	10,241	1,838
	101,989	99,822

As at 31 December 2017 and 2016, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of establishment and principal place of business	Paid up registered capital		Equity interest attributable to the Group		Principal activity
			2017	2016	2017	2016	
					%	%	
中化天津港石化倉儲有限公司 Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. ("Sinochem Port")	Sino-foreign owned enterprise	PRC	Renminbi ("RMB") 628,060,000	RMB 628,060,000	15 (Note)	15 (Note)	Provision of petrochemicals storage services
天津港中石化碼頭有限公司 Tianjin Port Sinochem Petrochemical Dock Co., Ltd. ("Tianjin Port")	Sino-foreign owned enterprise	PRC	RMB 139,388,000	RMB 139,388,000	15 (Note)	15 (Note)	Development and operation of dock and related ancillary facilities
Srithai Capital Co., Ltd. ("Srithai")	Ordinary	Thailand	Thailand Baht 100,000,000	Thailand Baht 100,000,000	49	49	Vessel holding and leasing

Note: The Group is able to exercise significant influence over Sinochem Port and Tianjin Port because it has the power to appoint one out of the five directors of these entities under the provisions stated in the articles of association of these entities.

As at 31 December 2017, the directors of the Company performed impairment assessments on the carrying amounts of the interests in Sinochem Port. The recoverable amounts are determined based on share of present value of the estimated future cash flows. Based on the assessment, the recoverable amount of Group's interests in Sinochem Port is estimated to be higher than the carrying amount and no impairment is made during the year ended 31 December 2017.

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For the year ended 31 December 2017

17. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associates

Summarised financial information in respect of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

Sinochem Port

	2017 HK\$'000	2016 HK\$'000
Current assets	104,403	19,789
Non-current assets	1,158,258	1,207,577
Current liabilities	(200,792)	(26,976)
Non-current liabilities	(640,454)	(755,089)
	2017 HK\$'000	2016 HK\$'000
Revenue	152,403	159,206
Loss and total comprehensive expense for the year	(53,637)	(216,609)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 HK\$'000	2016 HK\$'000
Net assets of Sinochem Port	421,415	445,301
Proportion of the Group's ownership interest in Sinochem Port	15%	15%
Carrying amount of the Group's interest in Sinochem Port	63,212	66,795

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17. INTERESTS IN ASSOCIATES (CONTINUED)

Aggregate information of associates that are not individually material

	2017 HK\$'000	2016 HK\$'000
The Group's share of profit and total comprehensive income for the year	1,809	11,005

	2017 HK\$'000	2016 HK\$'000
Aggregate carrying amount of the Group's interests in these associates	38,777	33,027

The exchange loss arising from translation of financial information of associates of gain of approximately HK\$8,403,000 (2016: loss of approximately HK\$4,709,000) for the year ended 31 December 2017 is recognised in other comprehensive income and accumulated in translation reserve.

18. INTEREST IN A JOINT VENTURE

	2017 HK\$'000	2016 HK\$'000
Cost of investments in a joint venture, unlisted	78,000	–
Share of post-acquisition loss	(1)	–
	77,999	–

As at 31 December 2017, the Group had interests in the following joint venture:

Name of entity	Form of business structure	Place of establishment and principal place of business	Paid up registered capital		Equity interest attributable to the Group		Principal activity
			2017	2016	2017	2016	
					%	%	
GSR GO Scale Capital Advisors, Ltd. ("GSR GO")	Ordinary	Cayman Islands	US\$73	N/A	49.3 (Note)	N/A	License holding

Note: During the year ended 31 December 2017, the Group acquired 49.3% equity interest from an independent third party at a consideration of US\$10,000,000 (equivalent to HK\$78,000,000). The directors of the Company are of the view that the Group has joint control over GSR GO given the Group has power to cast the majority of votes at meeting of the board of directors of GSR GO whereas certain relevant activities of GSR GO requires the unanimous written approval of all shareholders of GSR GO.

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18. INTEREST IN A JOINT VENTURE (CONTINUED)

Summarised financial information of material joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

GSR GO

	2017 HK\$'000
Current assets	62

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	62
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	2017 HK\$'000
Loss and total comprehensive expense for the year	(1)

Reconciliation of the above summarised financial information to the carrying amount of the interest in GSR GO recognised in the consolidated financial statements:

	2017 HK\$'000
Net assets of GSR GO	62
Proportion of the Group's ownership interest in GSR GO	49.3%
The Group's share of net assets in GSR GO	30
Recognition of intangible asset	77,969
Carrying amount of the Group's interest in GSR GO	77,999

Intangible asset recognised in the interest in a joint venture above represents a licensing agreement related to lithium-ion battery business entered by the joint venture with Nissan Motor Co., Ltd.. As at 31 December 2017, the directors of the Company performed impairment assessment on the carrying amount of the interest in GSR GO. The recoverable amount is determined based on share of present value of the estimated future cash flows expected to be generated by the joint venture. Based on the assessment, the recoverable amount of Group's interests in GSR GO is estimated to be higher than the carrying amount and no impairment is considered necessary during the year ended 31 December 2017.

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19. INVENTORIES

The amounts mainly relate to petrochemicals (2016: crude oil) held for resale purposes.

As at 31 December 2016, included in the balance were inventories of approximately HK\$806,535,000 (2017: nil) which had been pledged as security for bank borrowings.

20. TRADE AND BILLS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and bills receivables

	2017 HK\$'000	2016 HK\$'000
Trade receivables from third parties	1,691,405	1,415,849
Bills receivables	501,355	992
	2,192,760	1,416,841

The following is an aged analysis of trade receivables from third parties net of allowance for doubtful debts and bills receivables presented based on the invoice date at the end of the reporting period which approximated the revenue recognition dates:

	2017 HK\$'000	2016 HK\$'000
0 to 30 days	1,971,658	1,409,041
31 to 60 days	215,584	–
91 to 180 days	5,518	–
Over 180 days	–	7,800
	2,192,760	1,416,841

The credit period on sale of goods is 30 to 90 days. The Group does not hold any collateral over these balances. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$5,518,000 (2016: approximately HK\$7,800,000) with aging over 90 days (2016: over 180 days), which is based on the invoice date, are past due as at the reporting date for which the Group has not provided for impairment loss. The directors of the Company consider these trade receivables are of good credit quality as the debtors have no history of defaults and all of these balances had been subsequently settled. The amount of approximately HK\$5,518,000 (2016: approximately HK\$7,800,000) is subsequently settled after the end of reporting period.

No allowance is recognised for trade and bill receivables during the year.

	2017 HK\$'000	2016 HK\$'000
Movement in allowance for doubtful debts:		
Balance at beginning of the year	–	5,249
Disposal of subsidiaries	–	(5,249)
	–	–

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For the year ended 31 December 2017

20. TRADE AND BILLS RECEIVABLES AND OTHER CURRENT ASSETS (CONTINUED)

Trade and bills receivables (continued)

Before accepting any new customers, the Group will assess the potential customer's credit quality by reference to the experience of the management and define credit limit by customer. Such credit limit is reviewed by the management periodically. Trade receivables that are neither past due nor impaired have no default payment record.

Other receivables, deposits and prepayments

At the end of the reporting period, included in other receivables, deposits and prepayments are amounts of approximately HK\$195,000,000, HK\$38,084,000 and HK\$798,000 (2016: nil, approximately HK\$3,898,000 and HK\$43,000) representing primarily the refundable deposit to a supplier for purchase of petroleum products, prepayment to suppliers for purchase of petroleum products and petrochemicals and value added tax receivables respectively. The balances are expected to be realised within one year from the end of reporting period.

As at 31 December 2017, refundable deposit to a supplier for purchase of petroleum products of US\$25,000,000 (equivalent to approximately HK\$195,000,000) (2016: nil) is secured by shares in a listed company and a non-listed company, corporate guarantee from a listed company and personal guarantee from the chairman of a listed company.

21. HELD FOR TRADING INVESTMENTS

	2017 HK\$'000	2016 HK\$'000
Equity securities listed in Hong Kong, at fair value	41	28,753
Equity securities listed outside Hong Kong, at fair value	263	528
	304	29,281

22. DEPOSITS PLACED WITH BROKERS

The amounts represent margin deposits placed with brokers for trading derivatives. The amounts carry interest at variable interest rates of 0.001% (2016: 0.001%) per annum.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent the Group's deposits pledged to banks to secure short-term bank borrowings granted to the Group and are therefore classified as current assets.

Bank balances and cash comprise cash on hand, balances in saving and current accounts, and short-term bank deposits with an original maturity of three months or less. As at 31 December 2017, the bank balances and cash of approximately HK\$26,755,000 (2016: approximately HK\$60,240,000) are denominated in RMB which is not freely convertible into other currencies.

Pledged bank deposits, balances in saving account and short-term bank deposits carry effective interest at prevailing market rates which range from 0.01% to 1.60% (2016: 0.01% to 0.73%) per annum.

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24. TRADE AND BILLS PAYABLES AND OTHER CURRENT FINANCIAL LIABILITIES

Trade and bills payables, other payables and accrued charges comprise principally amounts outstanding for the purchases and ongoing costs.

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2017	2016
	HK\$'000	HK\$'000
0 to 30 days	1,453,278	689,529
31 to 60 days	716,497	–
91 to 180 days	34,123	–
	2,203,898	689,529

The credit period on purchase of goods is normally 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

At the end of the reporting period, included in other payables and accrued charges are amounts of approximately HK\$38,901,000, HK\$1,738,000, HK\$2,392,000 and HK\$544,000 (2016: nil, approximately HK\$3,287,000, HK\$1,508,000 and nil) representing freight charge payables, demurrage payables, payables for purchase of property, plant and equipment and trading commissions payable respectively.

25. BANK BORROWINGS

	2017	2016
	HK\$'000	HK\$'000
Secured bank borrowings	–	1,178,306
Carrying amount repayable:		
Within one year shown under current liabilities	–	1,178,306

As at 31 December 2016, the bank loans were secured by certain storage tanks, plant and machinery, prepaid lease payments, inventories and bank deposits. Details of which were set out in notes 14, 15, 19 and 23 respectively. Bank loans of approximately HK\$794,881,000 carried floating rates at London Interbank Offered Rates ("LIBOR") plus 1.25%, i.e. effective interest rate of 1.96% per annum and bank loans of approximately HK\$377,951,000 carried floating rates at bank's cost of fund ("COF") plus 1.25%, i.e. effective interest rate of 2.25% per annum and were denominated in US\$, functional currency of the relevant group entity. The remaining bank loans of approximately HK\$5,474,000 carried floating interest rate 105% of the People's Bank of China ("PBOC") one-year to five-year interest rate, i.e. effective interest rate of 4.99% per annum and were denominated in RMB, functional currency of the relevant group entities.

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26. DERIVATIVE FINANCIAL INSTRUMENTS

	Current assets		Current liabilities	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Analysed for reporting purpose as:				
Derivative financial instruments	93,266	120,683	103,673	218,304

The Group has the following outstanding net-settled futures contracts.

The major terms of these contracts are as follows:

At 31 December 2017

Notional amount	Expiry date	Strike price
<i>Brent futures contracts — long position:</i> US\$114,031,540	28 December 2017 to 31 October 2018	US\$50.74 to US\$66.75 per barrel
<i>Brent futures contracts — short position:</i> US\$179,507,690	28 December 2017 to 31 October 2018	US\$51.16 to US\$63.91 per barrel
<i>WTI futures contracts — long position:</i> US\$57,760,180	21 May 2018	US\$57.53 to US\$58.01 per barrel
<i>Methyl Alcohol futures contracts — long position:</i> RMB87,390	10 May 2018	RMB2,913 per ton
<i>Methyl Alcohol futures contracts — short position:</i> RMB87,240	10 May 2018	RMB2,908 per ton
<i>Purified Terephthalic Acid futures contracts — short position:</i> RMB218,910	10 May 2018	RMB5,472 to RMB5,474 per ton

Notes to the Consolidated Financial Statements

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26. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At 31 December 2016

Notional amount	Expiry date	Strike price
<i>Dubai Crude Oil futures contracts — long position:</i> US\$107,301,500	30 December 2016 to 28 February 2017	US\$43.30 to US\$54.00 per barrel
<i>Dubai Crude Oil futures contracts — short position:</i> US\$188,017,310	30 December 2016 to 28 April 2017	US\$43.20 to US\$53.57 per barrel
<i>Brent futures contracts — long position:</i> US\$13,758,530	28 February 2017	US\$55.04 to US\$57.85 per barrel
<i>Brent futures contracts — short position:</i> US\$8,837,620	31 January 2017	US\$54.46 to US\$55.87 per barrel
<i>RBOB Gas futures contracts — long position:</i> US\$1,788,003	1 March 2017	US\$1.70 to US\$1.71 per gallon
<i>RBOB Gas futures contracts — short position:</i> US\$976,875	1 February 2017	US\$1.34 to US\$1.53 per gallon
<i>Mono Ethylene Glycol futures contracts — long position:</i> RMB118,380	15 March 2017	RMB7,892 per ton
<i>WTI futures contracts — long position:</i> US\$17,136,960	21 January 2017 to 21 April 2017	US\$52.63 to US\$55.26 per barrel
<i>WTI futures contracts — short position:</i> US\$21,823,340	22 February 2017 to 22 March 2017	US\$52.56 to US\$54.96 per barrel

The fair values of the derivative financial instruments are estimated based on the difference between the contracted strike prices and prevailing futures prices or published oil indexes as at the end of the reporting period. Such prevailing futures prices or published oil indexes are derived from the relevant futures exchanges or oil prices publication as specified in the contracts.

Fair value changes on derivative financial instruments for the year recognised in the consolidated statement of profit or loss and other comprehensive income mainly represent the fair value changes on all settled and unsettled trading futures in relation to crude oil, petroleum products and petrochemicals.

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27. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.025 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	4,000,000,000	100,000
Issued and fully paid:		
At 1 January 2016 and 31 December 2016	1,768,018,409	44,200
Issue of shares (Note 1)	353,603,681	8,840
Exercise of share options (Note 2)	4,100,000	103
At 31 December 2017	2,125,722,090	53,143

Notes:

- (1) Pursuant to a subscription agreement entered into by the Company and the subscriber on 17 July 2017, 353,603,681 shares were issued at the subscription price of HK\$0.658 per subscription share.
- (2) During the year ended 31 December 2017, 4,100,000 shares of HK\$0.025 each were issued at HK\$0.645 per share upon exercise of the share option scheme of the Company (the "Share Option Scheme") by the option holders (see note 32).

The new shares rank pari passu with the existing shares in all respects.

28. CAPITAL COMMITMENTS

	2017 HK\$'000	2016 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	815	391

In addition, the Group has entered into a subscription agreement with an independent third party to make a capital commitment to the fund investment of US\$90,000,000 (equivalent to approximately HK\$702,000,000), representing 18% of the initial size of the fund. The Group will have no obligation to invest under the subscription agreement unless all the conditions precedent have been fulfilled or waived on or before 31 March 2018 or such later date as mutually agreed by both parties. Details of the investment are set out in the announcement issued by the Company on 7 September 2017. No amount was paid to the fund investment up till the date of approving the issuance of these consolidated financial statements.

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29. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases in respect of storage facilities, a vessel and rented premises which fall due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	11,801	6,813
In the second to fifth year inclusive	925	568
	12,726	7,381

Leases are negotiated and rentals are fixed for an average of two years (2016: two years).

30. RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years at the end of the reporting period.

The Group's subsidiary in Macao, in compliance with the applicable regulations of Macao, participated in a defined contribution pension scheme operated by the local government. The subsidiary is required to contribute a fixed amount for each employee. The only obligation of the Group with respect to the pension scheme is to make the specified contributions.

The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in central pension schemes operated by the relevant local government authorities. The contribution is borne by the Group on a fixed percentage of the employees' salaries.

The Group's subsidiary in Singapore, in compliance with the applicable regulations of Singapore, participated in a defined contribution scheme operated by the local government. The subsidiary is required to contribute an amount based on the employees' salaries.

During the year, the total amount contributed by the Group to the schemes and cost charged represents contribution paid or payable to the schemes by the Group at rates or amount specified in the rules of the schemes. The amount of contributions made by the Group in respect of retirement benefit schemes during the year is disclosed in note 9.

The Group has no significant obligation apart from the contribution as above at the end of the reporting period.

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31. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, the Group has the following transactions with its related parties during the year.

During the year, the Group paid the rental expenses of approximately HK\$1,680,000 (2016: approximately HK\$1,590,000) and approximately HK\$64,272,000 (2016: approximately HK\$62,712,000) to Strong Property Limited and Srithai for the use of office premises and storage area of the vessel respectively. Strong Property Limited is owned and controlled by one key management personnel of the Group and Srithai is an associate of the Company.

Compensation of key management personnel

The remuneration of directors and the other members of key management of the Group during the year were set out in note 10.

The remuneration of key management personnel is determined by the directors of the Company having regard to the performance of individuals and market trends.

32. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

The Share Option Scheme was approved and adopted by the written resolutions of all shareholders of the Company passed on 28 November 2008, to recognise and acknowledge the contributions of selected participants to the growth of the Group.

A new share option scheme (the "New Share Option Scheme") was adopted by an ordinary resolution of the shareholders at annual general meeting of the Company on 15 May 2014. The New Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Listing Rules and will remain in force for 10 years from 15 May 2014. As a result of the adoption of the New Share Option Scheme, the Share Option Scheme was terminated. Upon termination of the Share Option Scheme, no further option can be offered thereafter but any options granted prior to such termination but not yet exercised shall continue to be valid and exercisable in accordance with the Share Option Scheme.

Share Option Scheme

Under the Share Option Scheme, the board of directors of the Company (the "Board") might, in its absolute discretion, offer to grant options to any employee, executive and officer of the Group, any director (including non-executive director and independent non-executive director) and any adviser, consultant, supplier, customer and/or agent of the Group whom the Board considered have contributed or will contribute to the Group.

The maximum number of shares in respect of which options might be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue as at the date on which the shares of the Company are listed on the Stock Exchange, excluding for this purpose shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). The number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Share Option Scheme shall not exceed 30% of the shares in issue of the Company from time to time.

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32. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Equity-settled share option schemes (continued)

Share Option Scheme (continued)

The total number of shares issued and which fall to be issued upon the exercise of the options granted under the Share Option Scheme (including both exercised and outstanding options) to any individual in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares of the Company in issue as at the date of offer to grant. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approval by the Company's shareholders in accordance with the Share Option Scheme. Options granted to connected persons (a substantial shareholder or an independent non-executive director or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Subject to the rules of the Share Option Scheme, options may be exercised, in whole or in part, at any time during the period from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and the tenth anniversary of the Share Option Scheme. Options granted must be accepted by the prescribed acceptance date. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share, the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

On 7 May, 2009, a total of 40,000,000 (160,000,000 share options after share subdivision with effect from 18 August 2009) share options were granted to certain employees of the Group and directors of the Company and some individuals associated with suppliers and consultants under the Share Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK\$2.58 (HK\$0.645 after share subdivision with effect from 18 August 2009).

Options granted on 7 May 2009 are exercisable during the period starting from 8 May 2009 to 28 November 2018. The options granted under the Share Option Scheme has vesting period in three tranches of 40%, 30% and 30% of its options granted from the grant date to 8 May 2009, 8 May 2010 and 8 May 2011 respectively.

New Share Option Scheme

Under the New Share Option Scheme, the Board may, in its absolute discretion, offer to grant options to any employee, executive and officer of the Group, any director (including non-executive director and independent non-executive director) and any supplier, agent, customer, distributor, business associate or partner, professional, adviser, consultant or contractor, and any shareholder of any member of the Group whom the Board considered have contributed or will contribute to the Group.

The maximum number of shares in respect of which the options may be granted under the New Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue at the date of approval of the New Share Option Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the New Share Option Scheme shall not exceed 30% of the shares in issue of the Company from time to time.

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For the year ended 31 December 2017

32. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Equity-settled share option schemes (continued)

New Share Option Scheme (continued)

The total number of shares issued and which fall to be issued upon the exercise of the options granted under the New Share Option Scheme (including both exercised and outstanding options) to any individual in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares of the Company in issue as at the date of offer to grant. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approval by the Company's shareholders in accordance with the New Share Option Scheme. Options granted to connected persons in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Subject to the rules of the New Share Option Scheme, options may be exercised, in whole or in part, at any time during the period from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and the tenth anniversary of the New Share Option Scheme. Options granted must be accepted by the prescribed acceptance date. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share, the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

On 5 September 2014, a total of 138,000,000 share options were granted to certain independent advisers under the New Share Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK\$0.78. The share options granted on 5 September 2014 were fully vested upon the date of grant and are exercisable during the period from 6 September 2014 to 14 May 2024. The estimated fair values of the options and each option at the date of grant was approximately HK\$41,372,000 and HK\$0.2998, respectively.

As the fair value of advisory services provided by the advisers cannot be measured reliably, the fair value of the share options was determined using the Black-Scholes pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility was based on the historical share price volatility over the past 6 years upon the listing of the Company's shares in the Stock Exchange. The risk-free interest rate was based on 9.69 years yield of Hong Kong Sovereign Curve at the date of grant.

The variables and assumptions used in computing the fair value of the share options were based on the Company's directors' best estimate. The value of an option varied with different variables of certain subjective assumptions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

32. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Equity-settled share option schemes (continued)

New Share Option Scheme (continued)

The following table discloses movements of the Company's share options held by employees, directors of the Company and other eligible participants during the year:

Share Option Scheme

	Outstanding at 1.1.2016	Reclassification during the year	Outstanding at 31.12.2016	Reclassification during the year	Exercised during the year	Outstanding at 31.12.2017
Eligible participants						
Directors (Note 1)	360,000	-	360,000	(360,000)	-	-
Employees (Note 2)	5,260,000	(4,620,000)	640,000	(400,000)	-	240,000
Others (Notes 1, 2 and 3)	24,660,000	4,620,000	29,280,000	760,000	(4,100,000)	25,940,000
	30,280,000	-	30,280,000	-	(4,100,000)	26,180,000

New Share Option Scheme

	Outstanding at 31.12.2016 and 31.12.2017
Eligible participants	
Others (Note 4)	138,000,000

All the share options as at 31 December 2017 and 31 December 2016 were exercisable.

Notes:

- (1) The reclassification represents the resignation of a director during the year ended 31 December 2017.
- (2) The reclassification represents the retirement of employees during the year ended 31 December 2016 and 2017.
- (3) Others represent individuals associated with suppliers and consultants who has provided consultancy services (mainly for selling and marketing aspects) to the Group on continuous basis for two years till 8 May 2011 or some resigned employees/directors, whose options, at discretion of the Board were not cancelled or forfeited.
- (4) Others represent advisers who have provided advisory services (mainly for business opportunity for trading of crude oil) to the Group.

The number and the exercise price of options of Share Option Scheme have been adjusted due to the share subdivision of the Company with effect from 18 August 2009. Each share option was subdivided into 4 new shares options with exercise price of one-fourth of the original exercise price.

In respect of the share options exercised during the year ended 31 December 2017, the weighted average share price at the dates of exercise is HK\$1.57.

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33. PLEDGE OF ASSETS

As at 31 December 2017, the Group has pledged prepaid lease payments and bank deposits (2016: certain storage tanks, plant and machinery, prepaid lease payments, inventories and bank deposits) to secure certain banking facilities including bank borrowings. Details of which were set out in notes 14, 15, 19, 23 and 25 respectively.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt representing bank borrowings disclosed in note 25, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising share capital, share premium, retained profits and other reserve as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues, repurchase of shares as well as the issue of new debt or the redemption of existing debt.

35. FINANCIAL INSTRUMENTS

	2017 HK\$'000	2016 HK\$'000
Categories of financial instruments		
Financial assets		
FVTPL		
— Held for trading	93,570	149,964
Loans and receivables (including cash and cash equivalents)	3,308,833	2,043,085
Financial liabilities		
FVTPL		
— Held for trading	103,673	218,304
Amortised cost	2,263,298	1,871,234

Financial risk management objectives and policies

The Group's major financial instruments include held for trading investments, trade and bills receivables, other receivables and deposits, deposits placed with brokers, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, bank borrowings and derivative financial instruments. The risks associated with these financial instruments include market risks (interest rate risk, currency risk and other price risks), liquidity risk and credit risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the risks.

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risks

Interest rate risk

The Group manages the interest rate exposure based on the interest rate level as well as potential impact on the Group's results arising from volatility of the interest rate. The management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's cash flow interest rate risk primarily relates to its variable-rate deposits placed with brokers, pledged bank deposits and bank balances, and bank borrowings, as set out in notes 22, 23 and 25 respectively.

The Group's cash flow interest rate is mainly concentrated on fluctuation of LIBOR, COF and the PBOC interest rate arising from the Group's borrowings.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank balances, pledged bank deposits, deposits placed with brokers and bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount of bank balances, pledged bank deposits, deposits placed with brokers and bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points (2016: 10 basis points) increase or decrease is used for bank balances, pledged bank deposits, deposits placed with brokers and a 50 basis points (2016: 50 basis points) increase or decrease is used for bank borrowings which represents management's assessment of reasonably possible changes in interest rates.

For bank balances, pledged bank deposits, deposits placed with brokers, if the interest rate increases/decreases by 10 basis points (2016: 10 basis points) and all other variables were held constant, the Group's profit for the year would increase/decrease by approximately HK\$843,000 (2016: approximately HK\$604,000).

For bank borrowings, if interest rate increases/decreases by 50 basis points (2016: 50 basis points) and all other variables were held constant; the Group's profit for the year would decrease/increase by nil (2016: approximately HK\$5,892,000).

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as exposure at the end of the reporting period does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risks (continued)

Currency risk

The majority of the Group's sales and purchases are denominated in the functional currency of the Group. Occasionally, some purchases are denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Functional currency as US\$ against				
HK\$	45,422	54,347	474	9
Euro	354	231	–	–
Other currencies	2,076	5,183	8	7
Functional currency as RMB against				
US\$	120	121	–	–
HK\$	2	2	–	–
Functional currency as HK\$ against				
US\$	27	994	–	–

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

For entities with a US\$ functional currency holding monetary assets denominated in HK\$ or vice versa, the directors of the Company considered that, as HK\$ is pegged to US\$, the Group is not subject to significant foreign currency risk from change in foreign exchange rate of HK\$ against US\$ and vice versa.

Sensitivity analysis

If US\$ against RMB as functional currency increases/decreases by 5%, with all other variables were held constant, the Group's profit for the year would increase/decrease by approximately HK\$6,000 (2016: approximately HK\$6,000). 5% is the sensitivity rate used by the management in the assessment of the reasonably possible change in foreign exchange rate.

The directors of the Company considered that other than those mentioned above, the sensitivity of the Group's exposure against the changes in other foreign exchange rates is not significant as the foreign currency denominated monetary assets and liabilities of individual group entities were insignificant at the end of the reporting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risks (continued)

Other price risks

(i) Oil price risk

The Group has entered into derivative contracts for hedging and proprietary trading activities, including futures in both over-the-counter and different exchanges, in accordance with risk management policy of the Group. Derivative transactions entered into for risk management purpose will be monitored for suitability in terms of size with reference to the corresponding inventory held/shipment involved. Under the risk management policy, the open derivative positions are limited and monitored by different risk tolerance thresholds, including lots size thresholds for the equivalent physical cargo quantities, a sensitivity threshold based on absolute monetary amount, and a group threshold on net current assets. The management closely monitors the oil price trend in the market and other sources and its inventory position. Based on the oil price analysis and expected trading period, the management reduces the risk exposure by entering the long and short position of respective derivative financial instruments.

The Group's derivative financial instruments are measured at fair value provided by financial institutions with reference to the quoted crude oil futures prices, oil indexes or oil prices publication as specified in the contract. Therefore, the Group is exposed to oil price risk and the management monitors the price movements and takes appropriate actions when it is required.

Sensitivity analysis

If the referenced oil prices/indexes had been 10% higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately HK\$7,085,000 (2016: approximately HK\$71,892,000). The sensitivity rate of 10% represents management's assessment of the reasonably possible change in the referenced oil prices/indexes.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent risk of the oil prices/indexes as the year end exposure does not reflect the exposure during the year.

(ii) Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities. As at 31 December 2017, the Group's equity price risk is mainly concentrated on equity instruments operating in oil and gas industry and other financials industry sectors quoted in the Hong Kong Stock Exchange, New York Stock Exchange and Toronto Stock Exchange.

The Group's objective is to earn relatively competitive returns by investing in a diverse portfolio of high quality and liquid securities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risks (continued)

Other price risks (continued)

(ii) Equity price risk (continued)

Sensitivity analysis

For the held for trading investments, if the market prices of the equity securities had been 10% higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by approximately HK\$30,000 (2016: approximately HK\$2,928,000).

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent risk of the equity price as the year end exposure does not reflect the exposure during the year.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

As at 31 December 2017, the Group has available unutilised short-term bank loan facilities of approximately US\$381,696,000 (equivalent to approximately HK\$2,977,229,000) (2016: approximately US\$790,387,000 (equivalent to approximately HK\$6,165,018,000)) and approximately RMB35,000,000 (equivalent to approximately HK\$41,871,000) (2016: approximately RMB43,103,000 (equivalent to approximately HK\$48,186,000)).

The following table details the Group's remaining contractual maturities for its financial liabilities based on the agreed repayment dates. For non-derivative liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cashflows. For derivative financial instruments settled on a net basis, undiscounted contractual net cash outflow are presented. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contracted maturities are essential for an understanding of the timing of the cash flows of derivatives.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

To the extent that interests are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1 month to 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2017							
Non-derivative financial liabilities							
Trade and bills payables	N/A	1,677,655	526,243	-	-	2,203,898	2,203,898
Other payables	N/A	54,672	4,728	-	-	59,400	59,400
		1,732,327	530,971	-	-	2,263,298	2,263,298
Derivatives — net settlement							
— futures contracts	N/A	37,786	-	65,887	-	103,673	103,673
At 31 December 2016							
Non-derivative financial liabilities							
Trade and bills payables	N/A	674,370	15,159	-	-	689,529	689,529
Other payables	N/A	1,669	223	1,507	-	3,399	3,399
Bank borrowings — variable rate	2.62	1,173,113	45	5,490	-	1,178,648	1,178,306
		1,849,152	15,427	6,997	-	1,871,576	1,871,234
Derivatives — net settlement							
— futures contracts	N/A	107,773	89,111	21,420	-	218,304	218,304

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The bank balances and deposits placed with brokers are placed in various authorised financial institutions either with high credit ratings or good financial background and the directors of the Company consider the credit risk of such authorised financial institutions is low.

Other than concentration of credit risk on liquid funds and derivative financial instruments which are deposited or traded with several financial institutions and brokers with high credit ratings or good reputation, the Group also has concentration of credit risk on the trade receivables. As at 31 December 2017, the Group has concentration of credit risk on total trade receivables as 58% (2016: 52%) and 91% (2016: 100%) of the total trade receivables are due from the Group's largest customer and the five largest customers, respectively. These customers are mainly large and established oil trading companies or/and foreign state-owned energy companies with good financial backgrounds. The management closely monitors the subsequent settlement by the customers. At the same time, the management endeavours to diversify and expand the customer base in order to mitigate the concentration of credit risk through establishing new business relationships with non state-owned licensed import agents and overseas oil trading companies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and key input(s) used).

Financial assets/ financial liabilities	Fair value as at 31 December		Fair value hierarchy	Valuation technique(s) and key input(s)
	2017	2016		
1) Derivative financial instruments	Assets — HK\$93,266,000; Liabilities — HK\$103,673,000	Assets — HK\$120,683,000; Liabilities — HK\$218,304,000	Level 2	Difference between the contracted strike prices and prevailing futures prices or published indexes. Such prevailing futures prices or published indexes are derived from the relevant futures exchanges or prices publication as specified in the contracts.
2) Held for trading non-derivative financial assets	Listed equity securities in the United States of America ("USA"): — Oil and gas industry — HK\$21,000 Listed equity securities in Hong Kong: — Other financials industry — HK\$41,000 Listed equity securities in Canada: — Oil and gas industry — HK\$242,000	Listed equity securities in the USA: — Oil and gas industry — HK\$76,000 Listed equity securities in Hong Kong: — Other financials industry — HK\$28,753,000 Listed equity securities in Canada: — Oil and gas industry — HK\$452,000	Level 1	Quoted bid prices in an active market.

There were no transfers between Level 1 and 2 in the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial instruments (continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy as at 31 December 2017 and 2016

	At 31 December 2017			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at FVTPL				
Held for trading investments	304	–	–	304
Derivative financial instruments	–	93,266	–	93,266

	At 31 December 2017			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial liabilities at FVTPL				
Derivative financial instruments	–	103,673	–	103,673

	At 31 December 2016			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at FVTPL				
Held for trading investments	29,281	–	–	29,281
Derivative financial instruments	–	120,683	–	120,683

	At 31 December 2016			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial liabilities at FVTPL				
Derivative financial instruments	–	218,304	–	218,304

(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The amounts recognised for the derivative financial assets, derivative financial liabilities and deposits placed with brokers in relation to futures contracts do not meet the criteria for offsetting in the Group's consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable upon an event of default.

At 31 December 2017

	Gross amounts of recognised financial assets (liabilities) HK\$'000 (Note 1)	Gross amounts of recognised financial assets (liabilities) set off in the consolidated statement of financial position HK\$'000	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK\$'000 (Note 1)
Financial assets			
Deposits placed with brokers	83,461	–	83,461
Derivative financial instruments			
— futures contracts	93,266	–	93,266
Total	176,727	–	176,727
Financial liabilities			
Derivative financial instruments			
— futures contracts	(103,673)	–	(103,673)

Notes to the Consolidated Financial Statements

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35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements (continued)

At 31 December 2016

	Gross amounts of recognised financial assets (liabilities) HK\$'000 (Note 1)	Gross amounts of recognised financial assets (liabilities) set off in the consolidated statement of financial position HK\$'000	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK\$'000 (Note 1)
Financial assets			
Deposits placed with brokers	306,369	–	306,369
Derivative financial instruments			
— futures contracts	120,683	–	120,683
Total	427,052	–	427,052
Financial liabilities			
Derivative financial instruments			
— futures contracts	(218,304)	–	(218,304)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements (continued)

At 31 December 2017

	Net amounts of recognised financial assets (liabilities) HK\$'000	Related amounts not set off in the consolidated statement of financial position		Net amounts HK\$'000
		Financial instruments HK\$'000 (Note 2)	Cash collateral HK\$'000 (Note 2)	
Financial assets				
Counterparty A	86,093	(58,138)	–	27,955
Counterparty B	7	–	–	7
Counterparty C	36,831	–	–	36,831
Counterparty D	944	(4)	–	940
Counterparty E	43,812	(43,812)	–	–
Others	9,040	–	–	9,040
	176,727	(101,954)	–	74,773
Financial liabilities				
Counterparty A	(58,138)	49,803	8,335	–
Counterparty D	(4)	2	2	–
Counterparty E	(45,531)	43,461	351	(1,719)
	(103,673)	93,266	8,688	(1,719)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements (continued)

At 31 December 2016

	Net amounts of recognised financial assets (liabilities) HK\$'000	Related amounts not set off in the consolidated statement of financial position		Net amounts HK\$'000
		Financial instruments HK\$'000 (Note 2)	Cash collateral HK\$'000 (Note 2)	
Financial assets				
Counterparty A	18,284	–	–	18,284
Counterparty B	385,668	(210,081)	–	175,587
Counterparty C	17,069	–	–	17,069
Others	6,031	(3,513)	–	2,518
	427,052	(213,594)	–	213,458
Financial liabilities				
Counterparty B	(210,081)	118,622	91,459	–
Others	(8,223)	2,057	1,456	(4,710)
	(218,304)	120,679	92,915	(4,710)

Notes:

- The gross amounts of the recognised financial assets and financial liabilities and their net amounts as presented in the Group's consolidated statement of financial position that have been disclosed in the above tables are measured as follows:
 - Deposits placed with brokers — amortised cost
 - Derivative financial instruments — fair value
- If a default occurs, the brokers are able to exercise the right to offset against any favourable contract and the deposits placed by the Group. The amounts are measured on the same basis as the recognised financial assets and financial liabilities.

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For the year ended 31 December 2017

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of the financial position of the Company at the end of the reporting period is as follows:

	2017	2016
	HK\$'000	HK\$'000
Non-current assets		
Interests in subsidiaries	251,189	251,189
Amounts due from subsidiaries	925,689	926,084
	1,176,878	1,177,273
Current assets		
Deposits and prepayments	2,957	250
Held for trading investments	41	7,677
Deposits placed with brokers	9,419	17,217
Bank balances and cash	140,695	20,095
	153,112	45,239
Current liabilities		
Other payables and accrued charges	1,633	989
Amounts due to subsidiaries	239,456	238,209
	241,089	239,198
Net current liabilities	(87,977)	(193,959)
Net assets	1,088,901	983,314
Capital and reserves		
Share capital	53,143	44,200
Reserves	1,035,758	939,114
Total equity	1,088,901	983,314

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Movement in the Company's reserves:

	Share premium HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Contribution surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2016	339,520	51,564	1,368	118,111	457,900	968,463
Fair value change of available-for-sale financial assets	-	-	(11,690)	-	-	(11,690)
Cumulative fair value change of available-for-sale financial assets recycled to profit or loss upon disposal	-	-	10,322	-	-	10,322
Loss for the year	-	-	-	-	(10,301)	(10,301)
Total comprehensive expense for the year	-	-	(1,368)	-	(10,301)	(11,669)
Dividend paid	-	-	-	-	(17,680)	(17,680)
At 31 December 2016	339,520	51,564	-	118,111	429,919	939,114
Loss and total comprehensive expense for the year	-	-	-	-	(2,425)	(2,425)
Issue of shares (note 27)	223,831	-	-	-	-	223,831
Issue of shares on exercise of share options	3,714	(1,173)	-	-	-	2,541
Dividends paid	-	-	-	-	(127,303)	(127,303)
At 31 December 2017	567,065	50,391	-	118,111	300,191	1,035,758

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows used in financing activities.

	Dividend payables HK\$'000	Bank borrowings HK\$'000 (Note 25)	Total HK\$'000
At 1 January 2017	-	1,178,306	1,178,306
Financing cash flows	(127,303)	(1,178,690)	(1,305,993)
Foreign exchange translation	-	384	384
Dividends declared	127,303	-	127,303
At 31 December 2017	-	-	-

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38. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name of entity	Place of incorporation/ establishment	Principal place of business	Equity interest and voting rights attributable to the Group		Issued and fully paid share capital/ registered capital	Principal activity
			2017 %	2016 %		
Wide Sea International Limited ("Wide Sea")	British Virgin Islands ("BVI")	Hong Kong	100	100	US\$2	Investment holding
Saint Ocean Investment Limited ("Saint Ocean")	BVI	Hong Kong	100	N/A	US\$2	Investment holding
Strong Petrochemical Limited	Hong Kong	Hong Kong	100	100	HK\$20,000,000	Trading of petroleum products, crude oil and petrochemicals
Strong Petrochemical (Macao)	Macao	Macao	100	100	MOP100,000	Trading of petroleum products, crude oil and petrochemicals
南通潤德石油化工有限公司* Strong Petrochemical (Nantong) Logistics Co., Limited*	PRC	PRC	100	100	US\$12,500,000	Provision of petroleum products and petrochemicals storage services
Strong Petroleum Singapore Private Ltd.	Singapore	Singapore	100	100	Singapore Dollar 1,000,000	Trading of crude oil, petroleum products and coal
南通海峽國際貿易有限公司* Nantong Strong International Trading Company Limited*	PRC	PRC	100	100	US\$5,000,000	Trading of petroleum products and petrochemicals
淄博海峽匯能石油化工有限公司* Zibo Strong Huinan Petrochemical Limited*	PRC	PRC	100	N/A	RMB10,000,000	Trading of petroleum products

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results and net assets of the Group. To give full details of subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

All of the subsidiaries are owned indirectly by the Company except for Wide Sea and Saint Ocean which are owned directly by the Company.

* The English names of these entities established in the PRC are for identification purpose only.

Wholly foreign owned enterprise registered in the PRC.

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38. PRINCIPAL SUBSIDIARIES (CONTINUED)

None of the subsidiaries had any debt securities subsisting at the end of the reporting period or at any time during the year.

The PRC subsidiaries maintained RMB denominated bank balances. The remittance of these funds out of the PRC is subject to exchange restriction imposed by the PRC government.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. The principal activities of these subsidiaries are either investment holding or inactive.